



# FINANCIAL TIMES

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Argentines put their money behind Alfonsín, Page 5

## World news

## Business summary

### US budget deficit talks resume

Negotiations between members of the U.S. Senate and the House of Representatives over the shape of the 1986 federal budget deficit resumed unexpectedly after Thomas O'Neill, the Democratic House Speaker, signalled a willingness to compromise on the key issues of military and social security spending.

The resumption of the talks, which reached deadlock earlier in the week, was announced as the Reagan Administration's budget director, David Stockman, met with Republican majority leader Senator Robert Dole and Pete Domenici, Republican chairman of the Senate budget committee.

The signs of movement on a budget compromise coincided with the release of a study by the Congressional Budget Office which has reinforced fears that President Ronald Reagan's proposed tax reforms could cut out at least \$23bn from the Government's revenues over the next four years. Page 5

### Bush warning

U.S. Vice-President George Bush warned the European Commission of the strength of political pressure within the U.S. for a more aggressive agricultural trade policy. Page 2

### Grenada trial

The trial of 19 former left-wing leaders accused of murdering Prime Minister Maurice Bishop of Grenada was adjourned. The defence said they were being inhumanly treated in prison.

### S. Africa link cut

Sweden, Norway and Denmark announced plans to end their civil aviation agreements with South Africa as a further sanction against apartheid. Page 2

### Diplomat expelled

Syrian diplomat Ahmed Walid Rajab, who claimed diplomatic immunity to avoid a court order to quit a London flat, is to be expelled from Britain, the Foreign Office announced.

### Italian kidnapping

Gunnar abducted Marquis Isabella Guglielmi, a member of an Italian noble family, outside the family estate north of Rome.

### U.S. labour setback

The U.S. Supreme Court dealt a setback to the labour movement by ruling that workers have the right to resign from a union during a strike.

### Sudan troops

Sudan has put its troops on full alert in the southern military area of Equatoria after rebels said they were preparing to attack the Bor garrison.

### Submarine search

A British nuclear submarine hunted in vain for the flight recorder from the Air India jumbo jet that plunged into the Atlantic, killing 329.

### Airline bomb scare

Police searched a Canadian airliner in transit at Paris on its way from Munich to Toronto after a bomb scare.

### Newspaper strike off

Printers and journalists voted to end a nine-day strike which hit production of Rupert Murdoch's flagship national newspaper The Australian after a court ordered unions to negotiate with management.

### EEC union poll

More than half of EEC adults are indifferent or opposed to moves towards political union, according to a poll sponsored by the European Commission.

### London equities recover from low

LONDON equities lost further ground. By mid-afternoon prices were down to their lowest levels since December 13 with traders increasingly pessimistic. After-hours sentiment changed quite dramatically and a technical recovery touched off renewed demand. The FT Ordinary index fell a further 2.6 to 933.9. Gilt was firm as sterling improved. Page 44

TIN: Sharp fall in values on the London Metal Exchange was restricted by a limit on movements in the cash price. Standard grade cash tin fell £850 (\$825) to £9,675 a tonne, more than wiping out £435 rise to a record £10,325 on Wednesday. Page 24; Commodities, Page 46

### WALL STREET: At 3pm the Dow Jones industrial average was up 8.95 to 1,332.77. Page 48

FRANKFURT shares recovered some of the losses of the previous session, taking the Commerzbank index up 11.50 to 1,411.2. The bank also recorded WestLB's loss as 33.5, not the 60.30 fall it had previously reported. Page 48

TOKYO was hit by profit-taking and the Nikkei-Dow market average dropped 68.89 to 12,841.60. Page 48

DOLLAR was firm in London, rising to DM 3.059 (DM 3.043), SwFr 2.564 (SwFr 2.535), FFf 9.3175 (FFf 9.2725) and Y248.95 (Y248.4). On Bank of England figures, the dollar's exchange rate index rose from 144.3 to 144.6. Page 41

STERLING lost 60 points against the dollar in London to finish at \$1.2925. It also lost ground to FFf 12.04 (FFf 12.05) and Y322.0 (Y322.75), was unchanged at DM 3.055 and improved to SwFr 3.3125 (SwFr 3.295). The pound's exchange rate index was unchanged at 80.8. Page 41

GOLD: In New York the Comex August settlement was \$319.00. Gold fell \$0.25 on the London bullion market to \$317.00 and by \$1.25 in Zurich to \$316.00. Page 48

FRENCH Government watchdog, the Cour des Comptes, has issued warnings about the financial state and structure of three state enterprises, Aérospatiale, Gaz de France and CDF-Chimie.

FRANK B. HALL, U.S. insurance broker, is raising around \$24m through a private placement of 6.3 per cent of its equity with European institutional investors at \$28.375 a share.

MILLS & ALLEN, London money broker and financial services group, is to buy Gintelo, New York-based corporate bond broker, for an initial \$20m, and up to \$5.5m more based on the U.S. group's profits over the next three years. Page 33; Lex, Page 24

LUFTHANSA, the West German airline, is on the verge of signing a contract worth more than \$400m for up to 15 of the new European Airbus A-320, 150-seat twin-engine aircraft. Page 6

ENSERCH, U.S. engineering and energy conglomerate, is taking a \$225m pre-tax write-down on its oil-field services operations, which have operated at a loss in every quarter since late 1982. Page 25

ELDEBS IXL, wide-ranging Australian conglomerate, concedes that it will have to surrender majority control over the retail bank it hopes to set up if federal approval is granted. Page 29

CITIBANK, U.S. banking group, plans to have branches in 10 West German cities by the end of this year to strengthen business ties with medium-sized companies. Page 35

ROBERT BOSCH, West German electrical and vehicle parts group controlled by a charitable trust, expects to equal last year's record profit in 1985 and lift sales over DM 20bn (\$6.5bn) for the first time. Page 25

## Paris and Bonn try to win back lead EEC role

BY QUENTIN PEEL IN BRUSSELS AND RUPERT CORNWELL IN BONN

FRANCE and West Germany yesterday attempted to resume their roles as principal architects for the development of the European Community by urging adoption of a Treaty of European Union by the summit opening in Milan today.

Their joint initiative was announced in the Bundestag by Chancellor Helmut Kohl and confirmed in Paris by a spokesman for President François Mitterrand. It will be seen by other heads of government as a bid to regain some of the initiative on the development of EEC policies and procedures which has been lost to Britain's active, and quite successful, promotion of its own set of proposals.

Sig Bettino Craxi, the Italian Prime Minister and host of the two-day summit in Milan, has placed the whole subject of institutional reform - including the plan to call a fully-fledged conference to draft a Treaty of European Union - top of the agenda.

All the heads of state and government have pledged themselves to come up with firm proposals for reform, rather than a vague exhortation. Wide differences remain, however, about how far they are prepared to go, either to abandon national sovereignty or to extend the present economic competence of the Community into the political domain.

## Bonn relaxes insistence on strict exhaust rules

BY PAUL CHEESBROUGH IN LUXEMBOURG

WEST GERMANY yesterday sought to bring an end to the EEC squabble over new standards for cutting pollution from car exhausts by relaxing its insistence on environmental measures too strict for most of its partners to accept.

Herr Friedrich Zimmermann, the Interior Minister, told EEC environment ministers meeting in Luxembourg that proposals on future emission limits for carbon monoxide, hydrocarbons and nitrogen oxide presented by the European Commission were "sensible".

This was the first clear indication that the Bonn Government is prepared to face the wrath of the German environmental lobby and accept standards which hitherto it has classified as too lax.

The German concession came early in negotiations which are crucial in maintaining the integrity of the European car market and in establishing technical guidelines for car manufacturers working on new ranges for the 1990s.

The Bonn Government needs a rapid EEC agreement so that it can introduce, legally, a battery of incentives to encourage car buyers to purchase "clean" cars from July 1.

But the concession is not enough for the UK and France, which made clear that the commission proposals are too strict and do not meet key criteria in an agreement of last March - that the standards be flexible enough to allow them to be met not only by three-way catalytic converters as West Germany wants, but also by new "lean burn" engines.

As the meeting continued into the evening, the ten were waiting for a joint plan from Italy, president of the council, and the commission to try to bridge the gap.

But they were conscious that any plan which implies a relaxation would run into implacable opposition from Denmark, whose position, split out again yesterday, remains the one with which the Germans started.

Mitterrand's spokesman was more equivocal, saying that France could accept decisions from a summit.

The key document for debate is the report of the Dooge committee, commissioned 12 months ago at the Fontainebleau summit from the personal representatives of the 10 EEC leaders.

The majority of the committee, including all six representatives of the original EEC member-states, came down firmly in favour of calling an inter-governmental conference to draft a Treaty of Union, and on measures to restrict the powers of national veto.

Britain has tabled a series of proposals for Milan, including measures for increasing the use of majority voting for making the use of "vital national interests" to block decision-making more difficult, and a draft agreement to formalise foreign policy co-operation, including security questions.

Mrs Thatcher will argue that decisions could be taken on those measures by the heads of state themselves, without calling any conference. They could be referred to relevant national officials for drafting in detail, with final approval to be given at the next EEC summit in Luxembourg in December.

The British proposals, however, fall far short of the ambitions of the European Parliament.

Amro, the Netherlands' second largest bank, is to buy European Banking Company (EBC), the London merchant bank owned by the Ebc consortium. The price is believed to be £25m-£28m (\$32.3m-£33.8m).

Through a complex chain of linked deals, the purchase will enable Midland Bank of the UK to comply with an order by the Federal Reserve Board of the U.S. to cut its stake in European American Bank of New York, which is also owned by the consortium of which Midland is a member.

As a condition for buying Crocker National Bank in 1980, Midland had to reduce its interest of 20 per cent to below 5 per cent.

Amro said yesterday that the acquisition was a major step to strengthen its position in the international securities markets. EBC plays an active part in the Euro-markets and recently attracted attention by sterling to make markets in a select group of European equity stocks.

Mr F. Hoogendijk, a member of the board, also said that the bank was "a good vehicle" to participate in the city of London revolution. Trading on the London Stock Exchange was an aim, he said, although not the most important.

The purchase dovetails with Amro's recent efforts to focus more on international wholesale banking. Although Amro has a bigger domestic branch network than its larger rival, Algemene Bank Nederland, it has a smaller overseas presence.

Amro intends to merge its existing London merchant bank, Amro International, with EBC.

The deal was triggered some time ago by Midland's need to sell out of European American Bank. Under a complicated arrangement, Midland has sold just over 15 per cent of its stake in the New York bank to other Ebc members in return for their share in EBC. Midland thus became the sole owner of the London bank and sold it to Amro.

The deal also frees £28m in much-needed capital for Midland in the wake of the heavy losses it has sustained through Crocker Bank. It fits its strategy of pulling out of businesses where it does not have management control.

The members of Ebc are Midland bank, Amro, Deutsche Bank, Société Générale of France, Générale Bank, Creditanstalt Bankverein and Banco Commerciale Italiana.

Citibank expands in Germany, Page 25

## Amro to buy EBC from Ebc partners

By David Lascelles in London and Laura Raun in Amsterdam

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Citibank expands in Germany, Page 25

## Hostage crisis nearing end, says Berri

BY TONY WALKER AND NORA BOUSTANY IN BEIRUT, DAVID LENNON IN TEL AVIV AND DAVID HOUSEGO IN PARIS

THE AMERICAN hostage crisis in Beirut is nearing the end, according to Mr Nabih Berri, leader of the Shia Amal militia in Lebanon.

Mr Berri, speaking to reporters yesterday shortly after a meeting with a French diplomat, commented: "I am waiting for an answer. Until now I have not received an answer from the U.S. Government. But I think that we are at the end of this thing."

However, Mrs Jean Kirkpatrick, the former U.S. ambassador to the United Nations, said after talks in Tel Aviv with Mr Yitzhak Rabin, Israel's Defence Minister, that Mr Berri's negotiations with the French had failed. An Israeli official added that the "French option is definitely dead."

The optimism of Mr Berri, who has accepted responsibility for the U.S. hostages seized from a TWA flight two weeks ago, appears to be based on the French response to his suggestion that the Americans would be transferred to a Western embassy in Beirut pending the release of more than 700 southern Lebanese held in Israel.

Mr Berri later added in an American television interview that the hostages could be in an embassy or the U.S. within 72 hours.

The French government has reacted cautiously, repeating its willingness to provide a sanctuary for the hostages in Beirut but warning that it would not be a negotiator

or mediator. A spokesman said that France would not "substitute itself for the jailers of the hostages and stressed that they had to be given unconditional freedom."

M. Roland Dumas, French Foreign Minister, earlier recalled that both the U.S. and France had condemned the transfer of Shia prisoners to Israel as being against international law and the Geneva Conventions.

The U.S. has maintained its public silence over the delicate negotiations taking place since Mr George Shultz, Secretary of State, said late on Wednesday that Amal must release all 46 American hostages, which included seven kidnapped in Lebanon during the past 15 months.

Meanwhile Israel appeared to be increasingly resigned to freeing the Lebanese prisoners it was holding. If agreement could be reached between Mr Berri and the French Government to transfer the hostages to the French embassy in Beirut, the assessment in Jerusalem was that Israel would have no choice but to release the prisoners if that was the price of the deal.

Israel feels that a continued refusal at this stage to free the 735 Lebanese held in Adit prison near Haifa would cause further harm to its relations with the U.S. The hostages are being held in Lebanon.

Continued on Page 24  
French relations with Lebanon, Page 2

## UK shows surplus on visible trade

BY MAX WILKINSON, ECONOMICS CORRESPONDENT, IN LONDON

BRITAIN earned a surplus on its trade in goods in May for the first time since the end of 1983, according to official figures released yesterday.

This helped to push the current account of the balance of payments into a substantial surplus of £724m (\$941m). In the first five months of the year, the UK's current account is estimated to have been in surplus by just over £1bn, compared with a surplus of £500m for the whole of last year.

The surplus on trade in goods was £224m in May with an additional surplus estimated at £500m on invisible trade.

The improved trading performance reflects a steady increase in non-oil exports and a reduction of

oil imports after the return to work by Britain's miners.

Britain's visible trade account moved into a substantial surplus from the summer of 1980 as oil production built up, but by the spring of 1983 rising imports, particularly of manufactured goods, had wiped out the oil surplus.

Britain reverted to its more traditional pattern in which a surplus on invisible earnings paid for a deficit on visible trade. High oil imports during last year's miners' strike accentuated this change.

In May, however, the surplus earned on oil trade recovered to £240m, against an average of £530m a month in the strike.

Bank of England Quarterly Bulletin, Page 8

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## EUROPEAN NEWS

## France's relations with Lebanon run deep

BY DAVID HOUSEGO IN PARIS

THERE WAS nothing strange for most Frenchmen in the proposal by Mr Nabih Berri that the American hostages should be given temporary refuge in the French embassy. In the long agony of Lebanon's wars and civil wars, France has time and again been drawn back into the role of umpire, relief worker or friend.

After the Israeli invasion of Lebanon in 1982, it seemed natural to French public opinion that French troops would be called on to play a substantial role in the multinational peace-keeping force that intervened between the Israeli and Syrian forces.

When 88 of the French soldiers were killed in a bomb outrage in Beirut in 1983—at the same time that an even

larger number of American troops were killed—there was not the same indignation in France as there was in the U.S. French anger was reserved for the subsequent American pull-out from the country which forced a French withdrawal as well.

More recently when Shi'ites began killing Christians in the wake of the Israeli withdrawal from the south, M Andre Fontaine, the editor-in-chief of *Le Monde*, wrote one of his rare editorials under a front page banner headline of "SOS Lebanon" and called for more energetic intervention.

"Why does not France," he asked, whose passivity causes dismay among the Lebanese press for a larger UN presence. In recent history, French

intervention in the Lebanon dates back to the collapse of the Ottoman Empire in the First World War and the setting up of a French protectorate for Syria and Lebanon in 1916. But long before that the French had promoted schools and French culture in the country and there were extensive contacts between the French Catholic Church and the Lebanese Christian community.

Since the Second World War and the independence of Lebanon, France has always felt it had a role to play in protecting Lebanon's delicate confessional balance and in supporting the Christian community.

When the civil war began in the mid-1970s, France often found itself caught in the cross

fire of the feuding factions and of the rivalries of Middle East states for influence in the country. It lost its distinguished ambassador M Louis Delamare in 1981—presumably killed by Syrian agents—and currently has two diplomats and a journalist held hostage by the Shi'ites.

Public opinion in France is not against the French embassy being used for humanitarian purposes.

But it would certainly be against France being drawn into a role of holding the hostages in the place of the Shi'ite community while negotiations are being pursued with Israel. M Roland Dumas, the French foreign minister, has spotted that trap and is determined to avoid it.

## Community status for joint companies

By Paul Cheeswright in Luxembourg

THE EUROPEAN COMMUNITY yesterday took a sheet out of the French law book and enacted a measure designed to encourage and simplify the setting up of joint companies across national borders.

The Council of Ministers formally agreed in Luxembourg to a statute establishing the European Economic Interest Grouping (EEIG), in order to provide a Community status for companies from more than one EEC country.

The EEC countries have four years to adapt national legislation, allowing new EEIGs to be registered and have a Community legal status after July 1 1989.

The EEIG is based on the French concept of a partnership in its dealings with third parties and in terms of the liabilities of members of the grouping.

An EEIG would most likely be a subsidiary of companies in different EEC countries. It would not, under the new measure, be able to seek investment from the public. Rather, it would be the result of a contract between the parents. It could be registered in any EEC state and the fact of the registration would be published in the Community's official journal.

Although a legal entity at the Community level, an EEIG operating in a member state would be subject to the normal national rules covering any economic activity. It would not, for example, be exempt from local social security legislation. It would not be able to escape, say, a wage freeze.

## Netherlands visit for Nato chief

LORD CARRINGTON, Secretary-General of Nato, said yesterday that he firmly believed the Dutch Government would abide by its decision in June 1984 to deploy nuclear missiles, writes Laura Baum in The Hague.

The Nato leader—who described his visit as a routine call—was in Wassenaar and The Hague for talks with Mr Ruud Lubbers, Prime Minister of the Netherlands, Mr Hans van den Broek, Foreign Minister, and Mr Joop de Ruiter, Defence Minister.

## Madrid plays favourite parlour game of guessing new Cabinet

BY TOM BURNS IN MADRID



Sr Felipe Gonzalez

SR FELIPE GONZALEZ, the Spanish Prime Minister, travelled yesterday to Madrid to attend, for the first time, an EEC summit and, as a parting gift, he gave Madrid's political establishment the opportunity to indulge in its favourite parlour game—forecasting the composition of the new cabinet.

Sr Gonzalez has told his 17-member ministerial team that he intends to carry out a reshuffle next week. He has asked his ministers to remain within reach of a telephone and has said that they will all see each other again next Wednesday in what will be the final meeting of the present Government.

The Government spokesman said yesterday that Sr Gonzalez seeks "a new cabinet image" and "a new government dynamism" well in advance of general elections which are scheduled for next summer.

Sr Gonzalez has maintained intact the same Cabinet which was sworn in alongside him when he took office in December 1982 thereby constituting a remarkable endurance record for a single government in Spain. In the six years he has been in office, Sr Gonzalez has seen 70 ministers held office and reshuffles were often little more than rounds of musical chairs to offset political rivalries.

The Spanish codename for Cabinet reshuffle is "crisis" which has a dramatic ring to it. The immediate

debate is whether Sr Gonzalez intends a big "crisis" or a small one, whether lesser ministries, the public works and the transport portfolio, for example, will be affected, or whether the senior jobs of foreign affairs, the economy, and defence will have new incumbents.

Most pundits agree that the new Cabinet will strengthen the position of Sr Miguel Boyer, the Economy Minister and the architect of the financial austerity policy. Heading most lists of "outs" are the transport and the public works ministers who have recently been at loggerheads with Sr Boyer.

But there are some who say Sr Boyer would like to quit and perhaps become an EEC commissioner. There is consensus that Sr Gonzalez wants a political heavyweight in Brussels.

Sr Fernando Moran, the Foreign Minister, is also fancied as a future member of the European Commission, in which case Sr Boyer would stay at his post, take on the foreign affairs job, or, if he really wants to quit Madrid, go to Paris as ambassador.

Whether Sr Boyer stays or goes there will be no change in his basic guidelines. The favoured candidate for the economy "super ministry" should there be a vacancy, is Sr Mariano Rubio, the governor of the Bank of Spain, the central bank, and Sr Boyer's closest associate.

There are endless other permutations. Sr Narcis Serra, the Defence Minister and a staunch pro-Nato lobbyist, is talked of as a possible Foreign Minister and so is Sr Jose Maria Maravall, the Education Minister.

What is tantalising is that nobody really knows what the Government will look like this time next week except Sr Gonzalez himself. The Prime Minister is notorious for keeping his political cards close to his chest.

A result, the parlour game is played with more enthusiasm than ever.

## Comecon premiers end summit in Warsaw

BY CHRISTOPHER ROBINSON IN WARSAW

SPEECHES DELIVERED at a meeting of Comecon prime ministers which ended here yesterday have revealed a welter of problems facing the Soviet bloc economic grouping. In the main, the prime ministers stressed the need for increased integration, savings in energy and raw materials consumption and radical advances in Comecon technology.

They also upheld the latest Comecon offer for a resumption of talks with the Common Market on some form of mutual agreement. Co-operation agreements were signed on developing flexible computerised production systems and on utilising natural gas as fuel for motor vehicles.

But speech after speech showed that almost all the member countries have either bilateral problems with other members or are unhappy with the work of Comecon as a whole.

Few of the delegates, however, noted the recent calls by Mr Mikhail Gorbachev, the Soviet leader, for radical improvements in the way the Soviet economy is managed, at the first Comecon meeting since the new Soviet leader was installed.

Praise for Mr Gorbachev's economic endeavours was left to Mr Nikolai Tikhonov, the Soviet premier, and the Polish delegate gave Mr Gorbachev a ringing endorsement.

The Vietnamese premier, Mr To Huu, also went into detail about his country's efforts to improve management efficiency

and revealed that Vietnam was prepared to conclude a trade agreement with the European Community. He also mentioned a rescheduling agreement, fresh credits and preferential treatment for Vietnam on prices inside Comecon.

Mr Tikhonov, for his part, demanded improved quality in Comecon products and once again sounded the call for a speeding up of integration in what he called the face of the growing imperialist threat. Such calls usually send a tremor of anxiety throughout the Eastern European countries which are keen to maintain trading links with the West.

The East German delegate, for example, echoed the Soviet demand for increased co-operation but, with an eye to the Comecon's vital economic links with West Germany, stressed that trade with all countries was still to be encouraged.

But it was the Czech delegate who soberly pointed out that changes in the way Comecon is managed must be implemented if integration is to be achieved. Mr Lubomir Strougal, the Czech Prime Minister, hinting at the need for a transferable Comecon currency, noted that a realistic price system must be established.

Comecon, he implied, must begin to operate exchange rates linked to domestic prices if integration was to work. He reminded the delegates that none of the integration projects decided on as long ago as 1971 had gone beyond the stage of "general principles."

## Moscow hints at trade agreement with Brussels

BY DAVID BUCHAN AND PATRICK COCKBURN IN MOSCOW

THE SOVIET UNION might be prepared to conclude a trade agreement with the European Community, the Soviet foreign minister said yesterday.

The EEC was first to lead to a general declaration establishing political recognition and official contacts between the two trading organisations of Europe, a senior Soviet trade official said yesterday.

Mr Leonid Lokshin, deputy head of the Soviet foreign trade department dealing with Western Europe, said a general Comecon-EEC framework accord would open the way for Comecon member-countries to negotiate their own separate trade arrangements with Brussels. So far, only one of the Soviet trading bloc's 10 members, Romania, has done so.

After a four-year lapse in Comecon-EEC contacts, Comecon presented the EEC Commission, via the Polish Ambassador in Brussels, with a letter on June 14 asking for early talks with the EEC and suggesting Moscow, where the Comecon Secretariat is based, as the venue. The EEC Council of Ministers has since requested the Commission to prepare a reply.

If Brussels were to agree to a block-to-block accord, "then we would not exclude reaching our own separate trade arrangement with the EEC," Mr Lokshin said.

Because of the unrelenting of the U.S. as a trading partner and a recent decline of interest by Japan, following the U.S. lead, in the Soviet market, he

said Western Europe had become a key, indeed "irreplaceable" partner for the Soviet Union.

With its incorporation of Spain and Portugal, the EEC would account for nearly 70 per cent of Soviet trade with the industrialised West, which last year totalled some 50bn 546bn in both directions.

Formal recognition of the EEC would mark a major change in the policy of the Soviet Union which for a long time after the EEC's formation sought to ignore it as an institution.

But Mr Lokshin said there had been a gradual evolution in the Soviet attitude, beginning with acceptance of the EEC as a co-signatory of the 1975 Helsinki Accords and developing more concretely with officials of Soviet foreign trade organisations and the EEC Commission travelling to Brussels to discuss ways to sort out individual trade problems.

In almost 100 per cent of cases, Soviet officials had managed to resolve problems, such as dumping allegations, satisfactorily in Brussels, he added.

The preponderance of energy and raw materials in Soviet exports to the EEC meant that Moscow was built less by EEC European allies by EEC restrictions on steel, textiles and some "other" manufactured imports into the Community, Mr Lokshin went on. But it might still be interested in a trade agreement.

## South Africa air link cut

By David Brown in Stockholm

SWEDEN, Norway and Denmark yesterday announced plans to terminate their civil aviation agreements with South Africa, in a further international sanction against apartheid.

The move forces SAS, the Scandinavian airline, to cut its weekly air links between Copenhagen and Johannesburg via Nairobi.

"Our intent is to further isolate the apartheid regime in South Africa and to encourage other countries to take similar action," said Mr Mats Helström, Sweden's Trade Minister.

Public opinion in Sweden has swung sharply against the South African regime

## EEC warned on farm trade

BY QUENTIN PEEL IN BRUSSELS

MR GEORGE BUSH, the U.S. Vice-President, yesterday warned the European Commission about the strength of political pressure within the U.S. for a more aggressive agricultural trade policy.

At the same time he sought to allay European fears about a possible technology drain from Europe caused by the U.S. Strategic Defence Initiative (SDI), the so-called star wars research programme.

In more than an hour of talks with M Jacques Delors, the Commission President, and M Willy de Clerq, the Commissioner responsible for external trade, Mr Bush stressed the "very fragile mood of the American people particularly

resulting from the state of agriculture," according to a U.S. official. The rising tension in U.S./EEC trade relations, particularly concerning farm trade but also steel, was an important topic in the discussions.

The Commission seems to have received little encouragement from Mr Bush, who simply spelt out the reasons for the U.S. Government plan to provide some \$5bn in export subsidies for cereals, to compete with EEC grain on international markets.

While the Vice-President warned that the upsurge in U.S. domestic political pressure was largely a result of the loss of overseas markets,

"both sides recognised the importance of resisting protectionism."

There were no specific discussions on the latest skirmish in the trade war—the U.S. decision to impose up to 40 per cent tariffs on Italian and other EEC pasta exports, as part of its attack on European preference for buying Mediterranean citrus.

However, a U.S. official insisted that Washington remains "prepared to negotiate a settlement to this dispute" which has resulted in EEC retaliation against U.S.

On the subject of SDI, M Delors spelt out his own fears that the programme could result in a one-way technology drain from Europe.

## INTERNATIONAL MINING

## Baird restores some polish to the world's biggest nickel group

BY GEORGE MILLING-STANLEY

MR CHARLES BAIRD, chairman of Inco, the Canadian group which is the western world's largest producer of nickel, has presided since 1980 over an era in which the company has lost almost \$5.1bn, cut its annual dividend payments from 69 cents to 20 cents and reduced its workforce by more than a third to 22,000.

The prospect of turning Inco into the kind of mining company which deserves to survive the 1980s was a daunting one, but Mr Baird met the challenge head on and is now beginning to see some reward for his efforts.

Inco returned to profits in the fourth quarter of last year, although the group still recorded an overall net loss for 1984 of \$77.3m. The profit improved in the first three months of this year, further gains are in prospect for the second quarter, and Mr Baird is confident that Inco will be back in the black for 1985 as a whole.

While in no sense minimising the difficulty of what he has had to do to reach this position, Mr Baird brings to his analysis of the tasks which faced him a perspective not given to many to share.

Asked whether, at 62, Mr Baird might have retired at the start of the struggle to keep Inco afloat, he points out gently that the past four years cannot really be compared with his 18-month stint as Undersecretary of the U.S. Navy during the Vietnam war.

"Things were a lot tougher then," he says quietly, "with America losing 200 men every week. Nothing you did could possibly be an adequate response."

Mr Baird was an officer in the U.S. Marines during both World War II and the Korean War, and his description of the situation which faced him as beleaguered group has the air of a despatch from the front line of some economic battleground.

"The recession in the U.S. started in 1980 and lasted in most of the countries in the Organisation for Economic Co-operation and Development until the beginning of 1982. That is unlikely to be paralleled in the foreseeable future."

"As far as the nickel business is concerned, it was the first occasion since the end of the Second World War that we had more than one year of reduced consumption at a time and we had three in a row. All this came at the end of a decade

during which capacity had been increasing rapidly and that was inevitably reflected in lower prices."

As if that was not enough, the industry faced a sort of pincer attack from the free market, which was heightened when the London Metal Exchange opened trading in its nickel contract in April 1979.

For a long time, the nickel producers succeeded in maintaining an average premium in the prices they realised through direct dealings with their customers and held their prices steady.

That loyalty has not been repaid, however, and now that the growth of trading on the free market has effectively destroyed the fixed producer price system, the miners find themselves selling at a discount.

All attempts on the part of the producers to impose any sort of premium for security of supply are met with howls of protest, and have to be abandoned as impracticable.

"Our lives would be easier if there were no LME," Mr Baird concedes. "It really has made an enormous difference. As a small terminal market, the LME always tends to reflect the excesses, to exaggerate the trends, and a relatively small amount of selling affects prices out of all proportion."

Mr Baird characterises the period 1980-84 as "tough," but rewarding. The necessary "downsizing" was completed successfully—"not without some trauma, but in the most humane way possible," is how he puts it. As a consequence, the group has lost some degree of flexibility in its mining operations, but that seems small price to pay for the great advances in cost-effectiveness the new methods now in place represent.

In fact, Inco has made a

virtue out of this particular necessity, and is now selling its expertise in methods of bulk mining and continuous operation to other companies.

Mr Baird is not insensitive to the romance of mining—"you are taking a huge risk when you set out to rape the earth," he says. "It is still a dangerous business." But the changes made reflect his approach ever since he joined the company in 1969. He felt that mining was basically a materials handling business, and he has treated it as such throughout.

The new techniques, which have made a significant contribution towards reducing Inco's break-even price from \$2.60 a lb as recently as 1982 to around \$2.10 today, will stand the group in good stead for the future.

Mr Baird is confident that there will be a future—"I don't believe the world will ever be able to get by without metals."

He attaches no great importance to the somewhat artificial notion of break-even prices, preferring to strive for an appropriate return on equity.

"If the analysts are right and we make a net profit of something like \$75m this year, that would still be a return of only perhaps 10 per cent, and given our high gearing that is inadequate," Mr Baird says. "In today's conditions, when we are at or near the peak of the cycle, we should be seeing a 15 to 18 per cent return. The figure was over 20 per cent during the 1970s."

With commendable candour, he offers no defence against the charge that much of the North American mining industry was

dangerously slow to react to the new realities of the 1980s, notably the exceptional strength of the U.S. currency.

Mr Baird offers no apology for not diversifying away from the group's dependence on nickel production, as a number of other mining companies perceived to be one-product outfits have tried to do.

"The focus of our efforts has been to make our core business work and to regain our financial strength," he explains. "We are determined to make a success of what we have now, to make those assets more productive. I believe it is better to focus on one thing at a time."

It seems almost ironic to say so, in view of the number of workers who have been removed from the payroll, but one of the things Mr Baird has focused on is people. This has paid off, and labour relations in the nickel business have probably never been better.

The latest three-year wage agreement in Inco's main operating division in Sudbury, Ontario, signed at the beginning of June, provides clear evidence of this.

Mr Baird says proudly: "The recent negotiations show the new spirit, with the unions refraining from negotiating through the press, while management has taken a less macho stand."

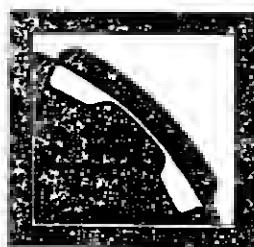
The agreement rules out any increase in basic rates, but both bonuses and cost of living allowances are tied to rises in the price of nickel.

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## OVERSEAS NEWS

# Industry opposes Peres bid to renew price curbs

BY DAVID LENNON IN TEL AVIV

MR SHIMON PERES, the Israeli Prime Minister, yesterday held intensive negotiations with his economic ministers, the central bank, leaders of industry and the trade unions in an attempt to devise an economic policy to replace the voluntary agreement on wage and price controls which ends next week.

Mr Peres painted a grim picture of the economy when he addressed the Labour Party bureau, describing Israel as sunk in external debts, trapped in an inflationary spiral and facing deficits in local authority and health service spending.

The premier would like to renew the package deal with the employers and unions to curb inflation, but the country's industrialists and manufacturers are opposed to con-

tinuing this arrangement which, they say, has involved them in heavy losses.

During a meeting yesterday with Mr Eli Hurvitz, president of the Manufacturers' Association, Mr Peres failed to persuade him to change his mind. The industrialist said that continuation of the package deal would lead to more bankruptcies.

The Histiadrut trade union federation favours renewing the package deal because it sees this as the best way of protecting its members' wages against hyperinflation.

Basically, Mr Peres has to decide between two approaches to economic policy. One, proposed by Mr Yitzhak Moda'i, the Finance Minister, involves an additional \$500m (£380m) cut in the budget, greatly reduced

subsidies for commodities, an administrative freeze on wages and prices, a large devaluation of the shekel and the lifting of import levies and export subsidies.

The second approach, advocated by other economic ministers and some officials at the Bank of Israel, places the emphasis on a policy of rapid deflation to be achieved by dollarisation of the economy or by pegging the exchange rate to a basket of currencies.

Mr Peres will find the pressure for a decision increasing next week when the Bank of Israel is expected to announce that foreign currency reserves fell during June by \$300m.

This bad news will be followed by the announcement in mid-July of the June inflation figure which, it is believed, will reach 20 per cent for the month.

## Work to start soon on Negev oil venture

BY OUR TEL AVIV CORRESPONDENT

WORK IS expected to get under way within a month on the Negev venture, the \$200m (£155m) oil exploration deal involving Mr Armand Hammer, the head of Occidental Petroleum Corporation, according to the Israel Energy Ministry.

The concession area in the Negev Desert covers 2m acres, which is about 40 per cent of the land area of Israel. On the western side this borders northern Sinai, where many of the major international have paid Egypt for concessions.

The project is being funded by \$10m raised by HET Oil and Gas Corporation, the syndicate organised by Mr Hammer. Another \$5m comes from

Isramco Inc, a publicly-quoted U.S. company, Joel (Jerusalem and Exploration Ltd), its sister Israeli company, and Delek, a major local petroleum distributor, among others.

The project was started by Dr Jo Elmaleh, chairman of the London-based Elmaleh Holdings as well as Isramco, and Joel, who is now in partnership with the American group of investors.

Isramco and Joel have drilled four wells in the past 18 months in the Guri field in the eastern Negev. Tiny quantities of oil are being produced from three of the wells, which Dr Elmaleh sees as an encouraging sign for the larger

concession. The Gurim field will be an independent enclave within the concession area of the Negev venture.

The agreement, which was signed last week, involves no signature bonus and includes Israeli agreement to make available all reports of seismic studies carried out in the concession area in recent years in return for a small deposit.

Dr Elmaleh also notes that the government royalty on oil found is 12.5 per cent, one of the lowest percentages anywhere in the world. At the same, he admits that this reflects Israel's eagerness to attract companies willing to invest in explorations.

## Investment prospects hit by defaulters

By Our Nairobi Correspondent

Prospects for increased investment in Tanzania, Kenya and Uganda have been marred by poor corporate administration, Mr Per Assmundrud, the Norwegian director-general of the East African Development Bank, said yesterday.

Mr Assmundrud, who was presenting the bank's 1984 report, chided a dozen unspecified projects for their poor management. He said some defaulters on their loans while others were up to a year in arrears with repayments.

"When loans are not correctly serviced, it also means that borrowings will be more difficult to obtain in the future. Based on the experience of the bank, it can be safely said that there are examples of irresponsibility in loan servicing both among private businessmen."

He cited foreign exchange shortages in Tanzania, a stagnant Kenya market and general difficulties in starting up new Ugandan businesses as the root causes of the company's unprofitability.

The public scolding has been interpreted as a warning to the bank's beneficiaries in a bid to improve AEDB's own credit ranking. Although the 18-year-old bank is viewed with a certain affection by some international commercial and development banks, ongoing regional squabbling discouraged other development banks from extending EADB lines of credit.

For several years its lending programme was at a virtual standstill. Now a determined drive to rebuild its image has begun to attract capital from new sources. Despite its handful of family loans, EADB's profits last year were \$4r 1.45m.

## Mary Anne Fitzgerald assesses the plans of Kenya and Tanzania Two budgets lacking real reforms

KENYA AND Tanzania have presented uncontroversial 1985-1986 budgets that lack any reforms with bite. While Kenya's was predicated on economic recovery, the Tanzanian budget cast into doubt the country's chances of emerging from its downturn recession. Kenya, Uganda and Tanzania, former partners within the East African community, customarily table their budgets within a week of each other.

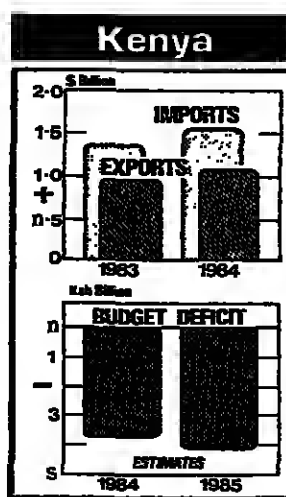
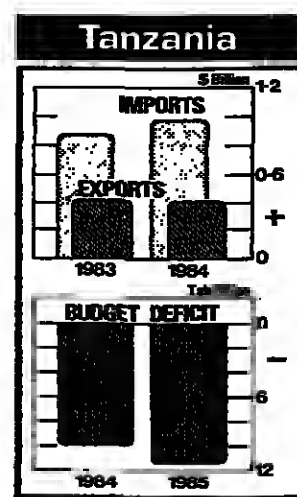
Prof George Saitoti, Kenya's Finance and Planning Minister, said prospects were rosy despite experiencing the worst drought in 50 years during 1984. He told a packed Parliament that he expected to see a turnaround in the economy during the coming year that would expand gross domestic product by more than 5 per cent, on target with Kenya's 1984-85 development plan.

If this is achieved, it will be the first time in several years that the growth rate of national output has overtaken the growth rate of the population which, at 4.1 per cent, is the highest in the world.

Last year, Kenya's GDP was virtually stagnant at 0.9 per cent. Professor Saitoti praised bureaucrats for their sound and dedicated management of the economy "at a time when financial strains could have plunged Kenya further into recession."

The Ksh 33.05bn (£1.6bn) budget pursued the Government policy of import liberalisation and lowered tariffs, a course of action that bears the World Bank hallmark and which also meets with International Monetary Fund approval. Kenya signed a standby agreement with the IMF this February for SDR 85.2m (£65.8m).

The new arrangement is contingent on a \$250m (£196.8m) ceiling on external commercial borrowing during the plan period. The IMF is said to be considering a further \$25m compensatory financing facility for the stabilisation of grain



Nyerere has repeatedly refused to comply with IMF conditions on the grounds that they are guided by a capitalist philosophy.

Last year, the Tanzania shilling was devalued by 26 per cent but the IMF is calling for a further devaluation as a condition of sanctioning a loan. If negotiations are seen to crumble beyond repair, it may affect aid commitments from other donors as well. They are reportedly pinning their hopes of restructuring the foundering Tanzania economy on a standby agreement.

President Nyerere came under attack from Scandinavian donors, traditionally his staunchest supporters, during a visit to Europe in early June. They criticised his Administration for failing to provide solutions to Tanzania's chronic budget deficit and stagnant production in all sectors of the economy.

There was little in the budget to reflect recent signals that Tanzania might shift slightly towards free market practices, following the President's decision to stand down in the general elections that are to be held later in the year. But legislation to allow foreign exchanges to be kept abroad for the purchase of imports was included.

Last year, Tanzania saw a GDP growth of 2.5 per cent, well below its population expansion rate of 3.3 per cent.

The new budget will resort to deficit financing to cover a gap of Tsh 12.96bn. Some Tsh 451m is likely to come from donors with the balance from domestic borrowing.

Measures to revive the agricultural sector are expected to be announced soon by the Agriculture Minister in a mid-budget speech. Increased producer prices last year helped to cut back grain imports from 326,000 tons in 1983 to 178,000 tons in 1984.

## IMF expected to agree standby credit for Morocco

BY FRANCES GHILES

THE International Monetary Fund is expected to agree later next month to a new standby credit for the Kingdom of Morocco, worth SDR 298m (£228.4m). This would replace the facility which expired last March but the terms of the new loan is expected to be 18 months, six months longer than was the case last year.

Negotiations between the Moroccan Government and the commercial banks on the restructuring of that part of the Kingdom's debt which falls due between September 1983 and December 1984 are continuing. Difficulties concerning the extent to which the Kingdom's central bank, the Banque du Maroc, wishes to be formally involved have been slow to resolve but both parties appear to think they might be able to conclude this summer.

Statistics just released show that Morocco's trade deficit increased by 10 per cent last year to Dirhams 15.29bn (£1.16bn). Imports rose by 9 per cent to Dirhams 34.4bn and exports by 8 per cent to Dirhams 19.1bn.

Energy imports increased by 3 per cent and accounted for 47 per cent of export earnings, while the cost of food imports surged by 24 per cent to Dirhams 5.5bn as a direct result of the intermittent drought which has damaged the Kingdom's farm sector since 1979. However, the 1984-85 harvest is expected to provide a bumper crop after plentiful rain. Initial

estimates suggests a 23 per cent increase in cereal production.

Receipts from tourism increased by 27 per cent in 1984 reaching Dirhams 3.94bn. On the export front, sales of phosphate rock improved by 27 per cent to Dirhams 4.6bn, while those of phosphoric acid improved further. However, exports of citrus fruit declined by more than a fifth to Dirhams 1bn, a reflection of the growing restrictions such produce faces on entering the EEC.

The Prime Minister, M Mohamed Karim Lamrani, has for his part outlined some fundamental reforms the Government intends to make in the financial sector. He stressed the need to liberalise exchange controls and streamline the bureaucracy, whose bottlenecks he described as a disincentive both to Moroccan exporters and foreign investors.

● The Moroccan army is extending the 1,000-kilometre wall which has been built to protect the Western Sahara from incursions from the Polisario guerrillas. The new stretch of wall will force the guerrillas to cross more deeply into Mauritania to resupply from their bases in Algeria, south of Tindouf.

Columbia has become the 62nd country to recognise the Saharan Arab Democratic Republic, which has been fighting Morocco's claim to the former Spanish colony of the Western Sahara since 1975.

## Paris Club reschedules African debts

THE Paris Club of Western creditor nations has signed agreements rescheduling official debts owed by Togo and Ivory Coast, Agencies report from Paris.

The French Finance Ministry said yesterday that eight Western Governments... had agreed to reschedule loans and credits guaranteed by them for Togo over 11 years, including five years' grace. Diplomats said the Ivory Coast rescheduling was over nine years with four years' grace.

Diplomats said Togo's rescheduling covered about 95 per cent of the \$15m (£11.7m) that it owes to sovereign creditors over the next 12 months. Togo's total debt to Western Governments and multilateral agencies is estimated at about \$400m.

They said the Ivory Coast rescheduling covered all the principal payments and half the interest owed during 1985. The Ivory Coast was originally scheduled to repay about \$300m in interest and principal this year. No exact figure for the amount rescheduled was made available.

● Western aid donors have offered to increase their official aid to Zambia during the coming year to \$400m from \$360m in 1984-85. Zambian officials told Reuters in Paris. The pledges would equal the foreign payments gap which Zambia foresees. World Bank economists said.



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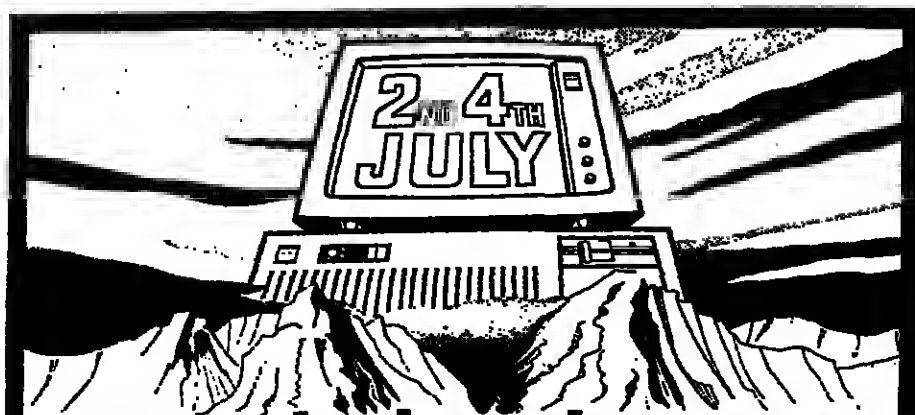
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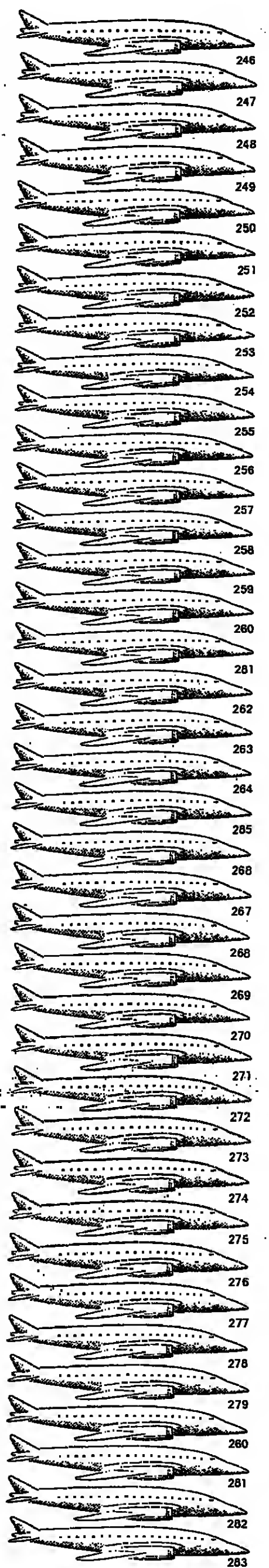
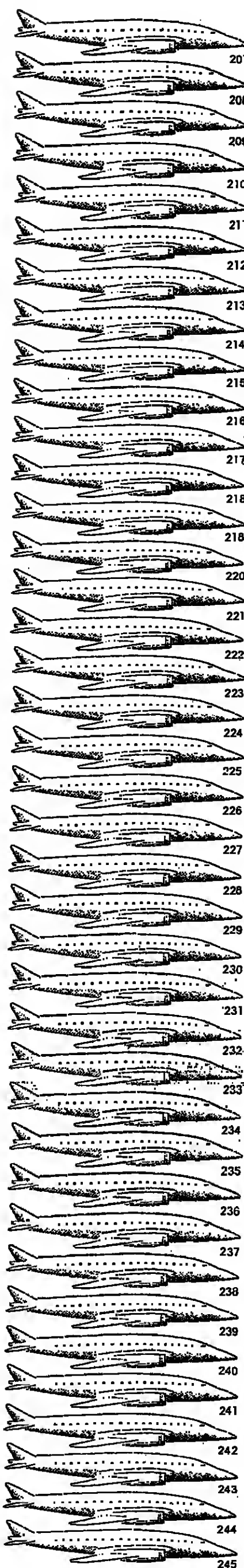
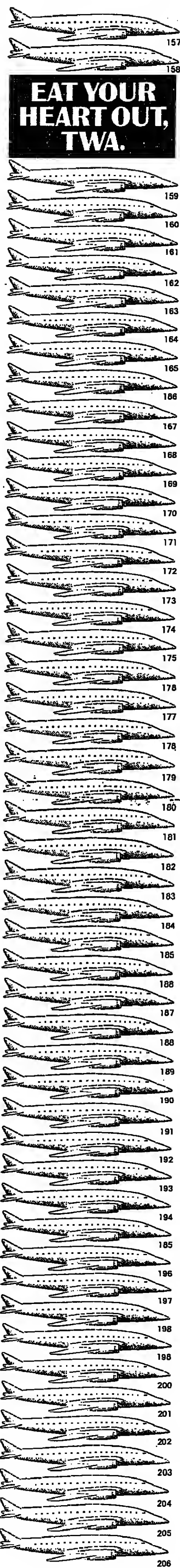
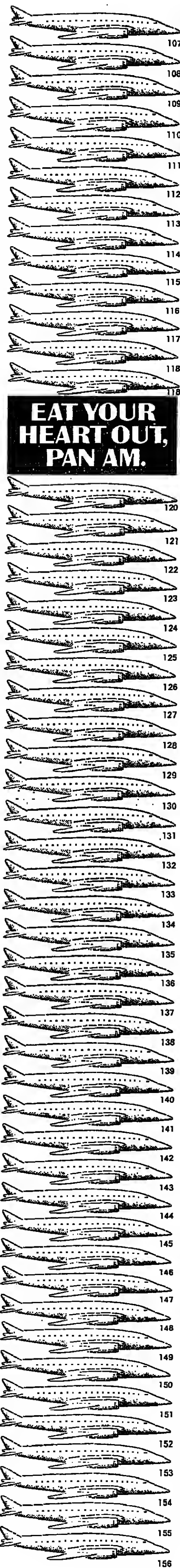
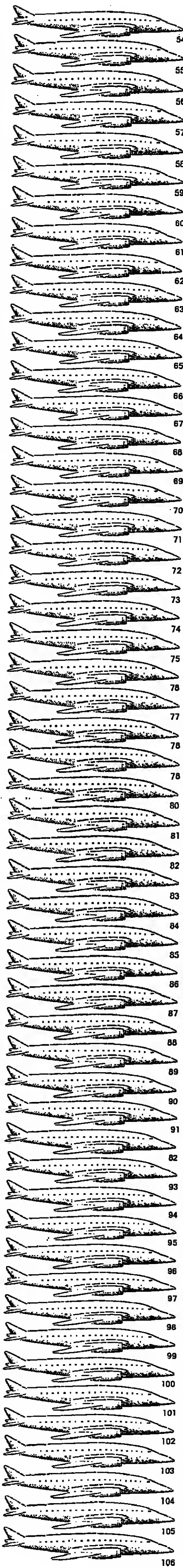
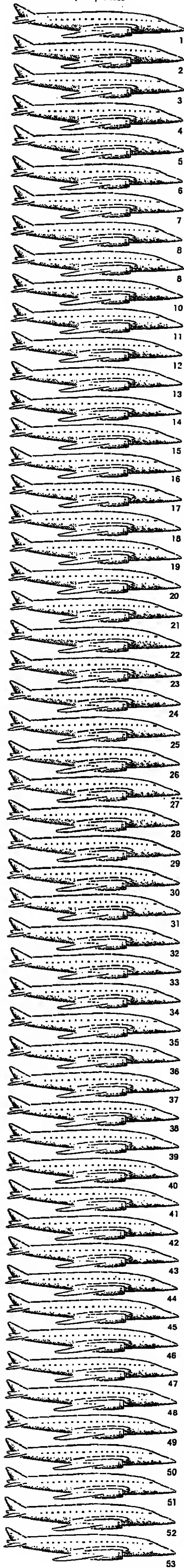
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## AMERICAN NEWS

# O'Neill ready to compromise on federal budget

BY STEWART FLEMING IN WASHINGTON

PROSPECTS for a revival of deadlocked congressional negotiations over the 1986 federal budget brightened yesterday when the Democratic Speaker of the House of Representatives, Mr. Thomas O'Neill, signalled a willingness to compromise on the key issues of military spending and social security.

Mr. O'Neill told reporters that House members of the budget conference committee would be prepared to accept the higher military spending levels contained in the Senate budget resolution provided Senate negotiators would stop insisting on changes in social security payments.

Mr. O'Neill first signalled his willingness to compromise on Wednesday when he suggested that one way around the contentious issue of cutting the inflation-proofing of social security pensions would be to begin taxing payments for better off recipients.

The White House yesterday indicated that it too was interested in looking for a way to break the budget impasse which emerged earlier this week when the budget conference committee broke up after reaching deadlock. Mr. Larry Speakes, White House spokesman, instead of sticking to the current White House policy of rigorous opposition to any form of tax increase, said yesterday: "If O'Neill is looking for a compromise that is a good sign."

Signs of movement in a budget compromise have coincided with the release of a study by

## Premier of Alberta to resign

By Bernard Simon in Toronto

ONE OF Canada's most powerful political personalities, Mr. Peter Lougheed, Premier of Alberta, has announced his intention to resign after 14 years in office.

Mr. Lougheed said that he had built the province's Progressive Conservative party, which he has headed for the past 20 years, to a position strong enough to hand over to someone else. Mr. Lougheed, who is 57, said he plans to pursue private business interests as soon as the party chooses a replacement.

Mr. Lougheed's resignation came an eventful week in Canadian politics and may have significant implications for relations between the federal government in Ottawa and the 10 provinces.

A week ago, Mr. Rene Levesque, the colourful leader of the ruling Parti Quebecois in Quebec, announced his resignation. A Liberal Premier, Mr. David Peterson, this week took over the government of Ontario.

Mr. Lougheed spearheaded opposition in the early 1980s to the federal government's high energy programme (NEP). He has become a leading proponent of free trade with the U.S.

The Progressive Conservative Party holds 75 of 79 seats in the Alberta Legislature. Among the favourite candidates to succeed Mr. Lougheed is Mr. John Zastrow, the Energy Minister.

## Jimmy Burns in Buenos Aires reports on public support for recent fiscal reforms

# Argentines put their money behind Alfonsin

WHEN LONG queues began to form outside all the main bank branches in Buenos Aires from the early hours of June 19, nervous Argentine officials privately braced themselves for the worst.

The Government had needed an unprecedented three-day bank holiday before conjuring up enough courage to test the reactions of the local financial markets to the "austral," the currency that has replaced the peso.

The fear persisted that a run on deposits and a major slide of the austral/peso against the dollar on the local black market for foreign exchange would signal a pre-emptive death knell for President Raul Alfonsin's shock prescription for hyperinflation.

What occurred, however, went beyond even the Government's wildest expectations. Argentines actually put in more money than they took out: more than 80 per cent of deposits were renewed and the cash withdrawn went largely into settling a backlog of public utility bills. The exchange dealers were forced to declare an unofficial day of mourning as the austral firmed up hand-somely, closing the gap between the "black" and official rate to an unprecedented 1 per cent.

"It was a hectic day because of the business that had piled up and the initial difficulties of converting our systems to smaller denominations and

cents. But our customers came in calm and smiling and went out the same way," said one bank manager.

Over the last week, some Argentines have continued to find dealing with a new currency when no new notes are yet in circulation somewhat confusing and have shown a tendency to call a peso a peso. The continuing stability of the currency on the local financial markets suggest, however, that the bulk of the population for once actually

declares one poster loudly. "He who speculates is a deserter."

Sr Lopez is the first to admit that the Government's war did not get off to an entirely happy start. The 10 telephone lines set up by his secretariat to record consumers' denunciations of price violations proved utterly inadequate on the first day as an efficient checking mechanism on the 350,000 small shops and thousands more supermarkets which exist in the capital.

Many people's initial sense of a collective contribution to President Alfonsin's "battle plan" was thus frustrated at a moment when it most needed to be encouraged.

Not all the phone calls that did get through were well intentioned. When inspectors such as Sr Lopez checked, they found that the accused were simply victims of personal vendettas or retailers with a seemingly genuine alibi for their price hikes: they were simply reflecting the price lists passed down to them by wholesalers.

"I tell you this man is innocent. It's the big fish you should be going for," shouted a middle-aged woman as Sr

Lopez followed up his detailed questioning of a small shop owner with a three-day closure of his premises and a hefty fine.

Some big fish have been caught, however, so popular reaction has gradually turned from one of suspicion to co-operation with a Government that is genuinely perceived to be doing justice. Raids have extended themselves to one of the capital's largest wholesalers as well as a "black" parallel food market that had been

democracy too. If this does not work then we might as well pack our bags, turn off the light, and leave the country," said Sr Lopez's "lieutenant," a young graduate in business law.

The Government claims that it has brought out an additional insurance against future speculation on scarcity by maintaining interest rates high in real terms. The cost of borrowing, officials say, will encourage the higher links in the distribution chain to maintain a swift turnover of products rather than build up stocks.

This also runs the risk of turning into a two-edged sword: with real interest rates high for depositors as well as lenders and a fixed exchange rate for the austral, the Argentine banking system could soon be inflating the kind of speculative bubble that was experienced to the country's eventual cost in the late 1970s.

The Government, to prevent this, will need to follow up last week's measures with a speedy treatment of the structural causes of Argentine inflation. These include an inefficient and oversized public sector, and a political system that on too many occasions has failed to respond to the needs of the ordinary person. If, as some economists insist, hyperinflation is all about people's expectations, Sr Alfonsin last week won a battle. He has yet to win the war.

The Alfonsin government has achieved a success beyond its wildest expectations because of the positive response by Argentine citizens to sweeping monetary reforms.

believes in what the Government has been doing.

"Sure, we've had noughts knocked off the peso before, only to see it worthless again within weeks, but this time we are seeing the currency backed up by firm measures," said Sr Mario Lopez, an employee of Argentina's Secretariat of Internal Commerce.

Sr Lopez has been strategically placed to test the pulse of the nation. He belongs to an army of government inspectors that daily set out to enforce the country-wide freeze backed by the full weight of an official propaganda machinery.

"This is a war economy,"

operating thanks to the protection of sectors of the police force.

When price controls were last enforced in Argentina, during the Government of General Juan Peron in 1974, police officers carried out the inspections so that bribery and outright repression became widespread.

The Alfonsin Government, however, has made a point of picking its inspectors from among carefully screened Democrats with an inbuilt interest in seeing the price controls work.

"If we allow inflation to go on the way it was, it is not just our wages that would suffer but

## House backs halt in anti-satellite tests

BY REGINALD DALE, U.S. EDITOR IN WASHINGTON

THE House of Representatives has voted to impose a moratorium on tests of U.S. anti-satellite (Asat) weapons against targets in space, provided the Soviet Union follows suit. The vote put the Democratic-controlled House in direct conflict with the Administration and the Republican-led Senate, leaving the future of the U.S. testing programme in the hands of House-Senate conference negotiators.

In a series of amendments to next year's defence budget, the House also approved broad new powers for the Pentagon to give lie detector tests to employees with access to classified information, and authorised military forces to join in drug enforcement searches, seizures and arrests outside the U.S.

Supporters of the Asat test ban argued that the only way to prevent an arms race in space was to stop testing before either the U.S. or the Soviet Union was sure that its weapons were reliable. Moscow has proposed a testing moratorium while the two superpowers try to negotiate restraints on anti-satellite weapons at the Geneva arms talk.

If the ban were to become law, it would halt U.S. Air

Force tests of a small missile launched from a high-flying F-15 fighter to destroy satellites in low orbit. The first test against an object in space is due next month, following earlier successful tests in which the missile was fired at a point in space without trying to hit an actual target.

The Administration argues that the programme, estimated ultimately to cost at least \$4bn, will put pressure on the Soviet Union to negotiate more seriously in Geneva. It maintains that a ban would also leave the U.S. at a disadvantage, as the Soviet Union has already tested a rocket-launched Asat system.

Advocates of the ban, however, contend that the Soviet system is cumbersome and unreliable, and can only reach low-orbiting photo-reconnaissance satellites.

Under the lie detector proposal, the Pentagon would be allowed to impose polygraph tests on those seeking clearances for access to classified information and apply random tests to those already cleared. It would greatly expand a programme currently providing for 3,500 tests a year.

## Western governments to hold talks on S. Africa

BY OUR DIPLOMATIC STAFF

SENIOR officials of Western Governments are expected to meet in London next month to review attitudes to South Africa, particularly on the questions of the employment of blacks and Namibia. Talks come in the wake of growing irritation in Washington with the Pretoria Government and increasing vocal public protests against apartheid in Europe and North America.

Mr Chester Crocker, senior State Department official for African affairs, declared in a televised Press conference on Wednesday: "If, by some chance, South Africa intends to go on its own, to go in a totally different direction from the one we've been pursuing, they will indeed be on their own."

Next month's talks will include officials from the so-

called contract group on Namibia—the U.S., Britain, Canada, France and West Germany—but may also involve other governments.

The Reagan Administration continues to back its strategy of "constructive engagement" with the Botha Government but is conscious of a rising tide of U.S. public opinion hostile to apartheid and is asked by recent South African actions, including the attacks on U.S. oil installations in the Angolan enclave of Cabinda and the raid on Cabotage, the capital of Botswana.

The British Government, while still firmly opposed to mandatory sanctions against South Africa, is conscious of the need to be seen to be acting against apartheid before the Commonwealth Heads of Government meeting due to take place in Nassau, Bahamas, in the autumn.

Edmund Dankerlui. After Mr Bouterse refused to ask the minister to resign, the federations withdrew their representatives from the cabinet and the national legislature.

This is the third time in recent years a cabinet in the former Dutch colony has resigned. The military leader, who came to power in 1980 after a coup, has attempted to form a government with the co-operation of trade unions, the business sector and the Unity Movement, a quasi-political party.

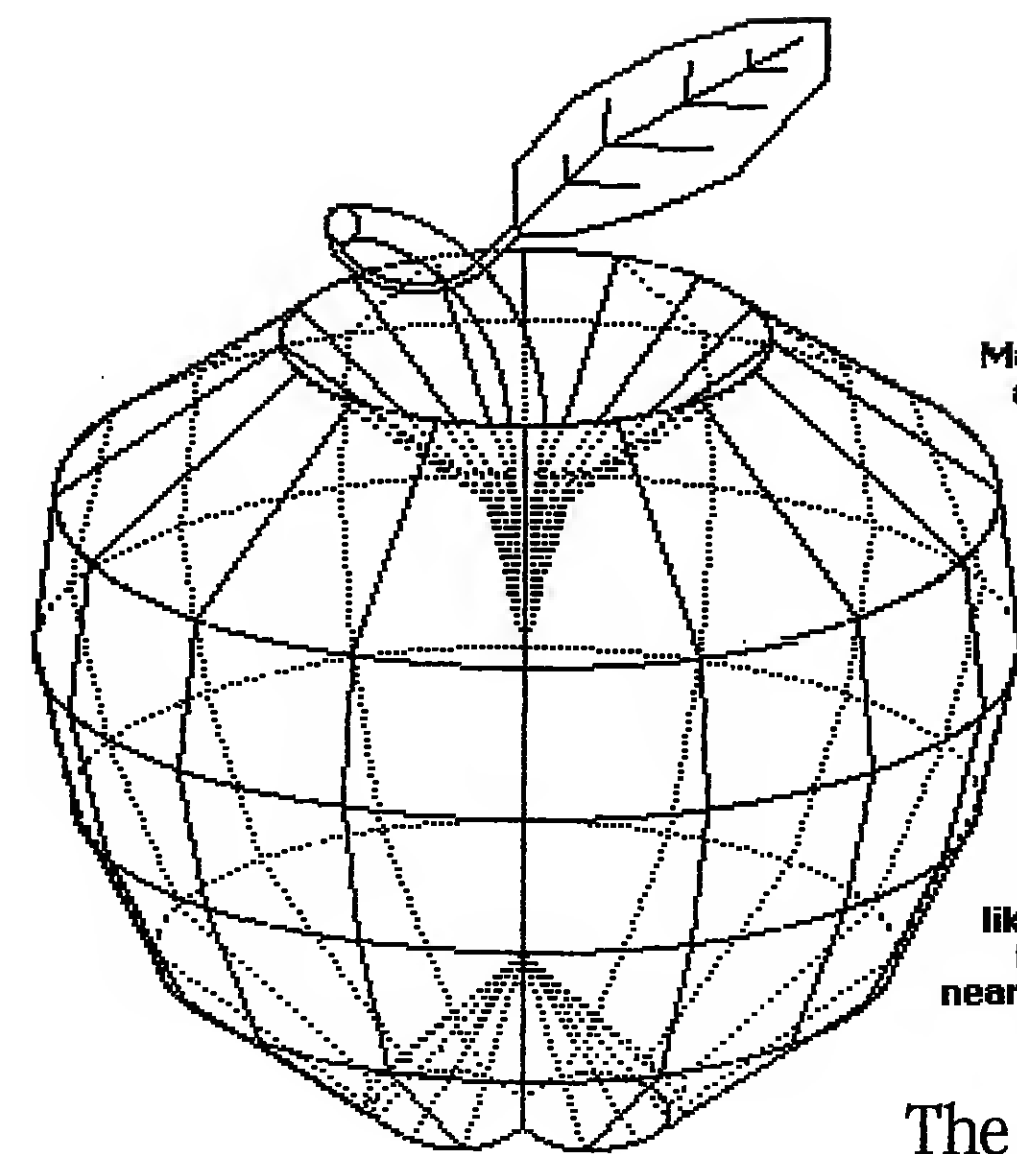
No elections have been held since the coup. AP

## Surinam cabinet quits

PARAMARIBO — Surinam's Prime Minister Mr Wim Udénhout, and his cabinet have resigned in an attempt to resolve "a cabinet crisis," and a new government is expected to be named today.

Mr Henk Herremberg, staff director for Surinam's military commander-in-chief Mr Desi Bouterse, made the announcement. He said the move was made to give the military leadership "more room to form a new government."

Mr Udénhout's cabinet came in power at the end of last year, but ran into difficulty in April when three labour federations asked for the resignation of the Labour Affairs minister, Mr



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# BASF'84

## BASF Aktiengesellschaft Notification of Dividend

The Annual General Meeting of the Company held on 27th June 1985 confirmed a dividend in respect of the year ended 31st December 1984 of DM 9 per share of DM 50 nominal value.

The dividend will be paid on or after 28th June 1985 net of 25% withholding tax against submission of dividend coupon no. 2 at one of the paying agents listed in issue no. 116, dated 28th June 1985, of the German Federal Gazette, the "Bundesanzeiger". In accordance with the Double Taxation Agreement of 26th November 1964, as amended on 23rd March 1970, between the United Kingdom and the Federal Republic of Germany, withholding tax in respect of shareholders resident in the United Kingdom is reduced from 25% to 15%. To claim this reduction, shareholders must, before 31st December 1985, submit an application for reimbursement to the Bundesamt für Finanzen, Koblenzer Straße 63-65, D-5300 Bonn-Bad Godesberg.

In the United Kingdom the dividend payment, which is free of charge, will be made in Pounds Sterling with conversion from Deutschmarks at the rate prevailing on the day of submission of the dividend coupon and will take place through the London offices of the following banks:

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S. G. Warburg & Co. Ltd., 33 King William Street, London EC4R 9AS.

The Board of Executive Directors  
BASF Aktiengesellschaft

D-6700 Ludwigshafen/Rhine, June 28th, 1985

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## WORLD TRADE NEWS

### Carla Rapoport reports from Japan on the trade action plan Tokyo's tariff cuts fail to please

THE HEART of Tokyo's central business district was the scene this week of an impressive street market organised by farmers under banners reading: "Don't allow liberalisation of agricultural products." Their T-shirts carried the English slogan: "Let's enjoy a creative life, love rice."

The market was organised to protest against the Japanese Government's recent reduction of import tariffs on agricultural goods. A prominent display in the market, however, contained platters of beef, oranges and cheese, items on which the import restrictions had been maintained.

"These items might be next," said one protester. The farmers were not the only people unhappy with the tariff reductions: many of those who were aimed to please. Mr Michael Smith, deputy U.S. trade representative, said in Washington this week that he was "profoundly disappointed" that some of our priority items such as wood products, chocolate and grapefruits are not included despite repeated requests. Other farmers, he said, were smaller than the U.S. had sought.

Government officials in Tokyo, however, are at pains to say that Japan is willing to continue bilateral or multilateral trade talks aimed at reducing tariffs further. Regarding the new round of Gatt negotiations, for example, Japan is ready to reduce tariffs on industrial products to zero in concert with other countries.

Behind Japan's basic willingness to open its markets further lies the fundamental acknowledgement that all these efforts will result in little or no change in Japan's huge trade surplus this year.

While the basic outline of Japan's action programme on market accessibility is hampered out over the next few weeks, Government ministries remain at odds over whether anything can be done to change this fact.

Yesterday, for example, Japan's Foreign Trade Council reported that export contracts for Japan's trading companies rose by 24 per cent in May while imports dropped by 5 per cent. These are the kind of figures which give the Prime Minister, Mr Yasuhiro Nakasone a headache.

Two "quick fix" ideas are being debated publicly in Tokyo. One which would be to lower the import duty on those companies exporting more than, say, a fixed quota.

More serious consideration, however, is being given to a plan for import credits. These would be low-interest loans for companies which agree to purchase more of their needs from foreign companies. Miti officials have been pushing this idea

and also suggest a foreign currency loan programme for importers.

The Ministry of Finance, however, has resisted so far, the import credit scheme. It is reluctant to involve the Government in leading foreign currency, thus casting doubt in the role of an international bank not a ministry.

At Miti, however, officials say that the Government would be worse off if its action programme fails to produce any noticeable change in the trade balance picture. It argues that import credits are needed for manufactured goods because foreign products do not yet have a price edge in Japan as a result of their relative scarcity.

Trading and leasing romances, some Miti officials say, need the incentive of import credits.

Finance Ministry officials contend that import credits or export taxes run against the spirit of free trade. What, they ask, will happen when the trade assistance programme stops? They argue that it is better to take a longer view—allow full access to Japan for foreign products and let the foreign businesses develop their own import action programmes.

Within the debate lies the plan for emergency imports tacked on to the action programme outlined this week. These should allow what some have labelled a "quick and dirty" fix, by supporting the purchase of as much as \$3bn (£2.36bn) worth of goods from abroad either by leasing companies or through Government agencies.

This programme is also viewed sceptically by many who believe it will invite more foreign criticism than praise. Unfortunately, the July deadline for the completion of the action programme outline precludes the Japanese from making further progress on another crucial point: the yen dollar rate.

In the case of the exchange rate, Japan maintains the dollar is overvalued, which is a problem of Washington's making. The U.S. argues that Japan keeps a tight reign on interest rates, which in turn holds the yen down to unreasonable levels.

### Move to rationalise import procedures

By Carla Rapoport in Tokyo

JAPAN is preparing to rationalise its standards, certification and import procedures on the basis of simplicity, transparency, and consistency with international standards.

The revision of standards and certification is now under review as part of Japan's action programme on improving market accessibility.

The first part of the programme was taken this week when Japan reduced or eliminated tariffs on more than 1800 agricultural and industrial goods. Japan's Ministry of International Trade and Industry (MITI) said the tariff reductions would cost the Government ¥70bn (£218m) in revenue.

Japan now expects to present detailed outline of its action programme by the end of July, with implementation of most items expected by November.

Mr Makoto Kuroda, director-general of MITI's International Trade Policy Bureau, said the programme was being developed with freedom as a principle, restrictions as exceptions, and consumer choice as paramount.

The overhaul to the system, he said, "will ensure that all products will be treated equally and that will encourage foreign businesses to come to Japan."

## U.S. microchip industry launches pre-emptive strike

BY STEWART FLEMING IN WASHINGTON

THE U.S. semiconductor industry with the tacit approval of trade officials in the Reagan Administration, has launched a pre-emptive strike against its Japanese competitors with a precedent-setting legal action under the revised Section 301 of the U.S. trade laws.

The action calls on President Ronald Reagan to put pressure on the Japanese Government to secure a "dramatic improvement" in American sales of semiconductor chips, the computer chips which are at the heart of today's electronics technology, or to retaliate against U.S. imports of chips from Japan.

Such U.S. pressures for action against the Japanese have attended every downturn in the microchip market since the mid-1970s, but this is the closest the U.S. has come to legal action.

This move is being taken in conditions which Mr Gordon Moore, chairman of Intel, describes as "the worst shake-out in our industry in over a decade." The Semiconductor Industry Association (SIA) forecasts that sales in America by U.S., Japanese and European manufacturers of integrated circuits will drop 20 per cent this year to about \$9bn (£7.08bn).

In the past few weeks, several large Japanese chip manufacturers have announced layoffs and plant closures which have dramatised their plight. Intel, one of the leading chip manufacturers, has laid off some 1,800 employees recently, and Gould has announced write-offs of \$150m against its semiconductor operations.

The complaint which the SIA has filed on the part of its 57 members and the separate anti-dumping suit which the Idaho-based Micron Technologies filed this week against Japanese manufacturers of 64 kilobit dynamic random access memory (dram) components from Japan, are seen in Washington as adding a new dimension to the debate about trade policy.

Until recently it was primarily ageing industries such as the steel, shoe and textile manufacturers which made most of the running in the fight for protection against allegedly unfair foreign trading practices. Trade experts now expect a wave of complaints from companies on the leading edge of modern technology.

The SIA case is not a traditional dumping complaint but instead seeks to secure improved access to the Japanese market. It maintains that informal trade barriers, including a long history of exclusive activity by the main Japanese semiconductor manufacturers, has prevented U.S. producers from gaining the large share of the Japanese market which their technological and competitive abilities merit.

The industry points out, for example, that its market share in Japan has been stuck at around 10 per cent since 1974, whereas Japan has increased its penetration of the U.S. market, raising its share from 6.7 per cent in 1981 to 17 per cent in 1984.

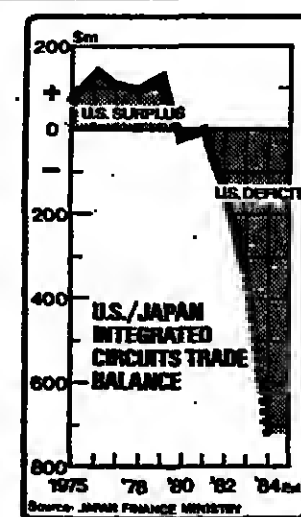
In the past five years, Japanese companies including NEC, Fujitsu, Hitachi and

Micron Technology, an Idaho-based manufacturer of computer memory chips, has filed the first American anti-dumping action against Japanese producers of semiconductor products, writes Stewart Fleming. The company has charged that seven major Japanese companies, including Fujitsu and Hitachi are selling 64K d-rams at less than fair value market prices in the U.S. The company alleges that the Japanese companies are attempting to win an increased share of the emerging market for 256K d-rams. It is argued that the dumping of the 64K d-rams is hitting the profits of U.S. manufacturers and weakening them competitively.

Mitsubishi have decided to set up more than 12 microchip production or assembly plants in the U.S.

The U.S. industry backs up its complaint by pointing out that in Europe and the rest of the world its members have market shares of between 43 and 70 per cent. Japanese producers reply that the low U.S. market share reflects quality control problems and U.S. manufacturers' failure to build long-term relationships with customers.

Apart from the loss of income and earnings which the SIA claims it has suffered as a result of the low level of sales



in Japan, the SIA argues that the protection afforded its Japanese rivals allows them to expand capacity without paying attention to world market trends and then export surplus production to the U.S. at low prices when market conditions are weak.

Some industry executives maintain that there is a conscious strategy being pursued, and that the surge in Japanese exports into the U.S. market when such "capacity races" take place allows Japanese producers to increase their market shares in the U.S. and drive U.S. competitors out of business.

The SIA points out that Japanese producers already have 98 per cent of the world

market for the latest generation of DRAM, the 256K DRAM. Industry executives argue that what could be at stake ultimately is continued U.S. technological leadership in the semiconductor business.

The SIA case is designed primarily to open up the Japanese market and as such should reinforce Administration trade negotiators in their talks with the Japanese Government aimed in part at improving U.S. access to Japan's electronics markets.

But the arguments being used and the relief being asked for, if no progress is made, are expected to make Japanese producers much more wary about aggressively challenging for market share in the U.S. as sales in the U.S. market slump.

The Japanese Ministry of Trade and Industry (MITI) this week announced that Japanese semiconductor producers are cutting back by 20 per cent their investment plans for 1985. The SIA response is that such a cutback, if it takes place, does not address the issue of access to Japan's markets.

The Reagan Administration must decide in the next few weeks whether or not to pursue the SIA petition under Section 301, the President has discretion to act and what action to take. That decision is of considerable significance for it could set a precedent under the revised Trade Act. It will also be read as sending a signal to Capitol Hill, where pressure is mounting for the White House to show more vigorous leadership on trade issues.

### Brussels presses to renew MFA

By Ivo Dawsey in Brussels

THE EEC yesterday announced that it will press for a renewal of the Multi-Fibre Arrangement (MFA) next month, though it is prepared to make concessions allowing greater access for textiles from low-cost producer countries into the Community market.

Talks on the future of the MFA, which controls textile exports to the older producer countries to allow time for industries to be restructured, are due to begin next month, prior to the expiry of the Arrangement in July next year.

The European Commission's position, almost certain to be endorsed by member-states, is that the MFA must be continued to allow further restructuring to take place. However, in a bid to head off an effort by the low-cost producers to end the MFA altogether, it promises to take "concrete measures" allowing much greater flexibility on a multi-lateral basis.

The Commission justifies its stance by arguing that ending the MFA outright in current economic circumstances could lead to serious instability and possible financial losses to less developed textile export-nations.

This policy will go forward for the approval of foreign ministers on July 22—the eve of a new round of talks under the auspices of the General Agreement on Tariffs and Trade (Gatt), scheduled to conclude next year.

The U.S., which is also protected from cheap imports by the MFA, has yet to declare its policy on the future of the agreement. But U.S. trade officials suggest that Washington too will be keen to continue the MFA.

### Lufthansa in \$400m Airbus deal

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

LUFTHANSA, the West German airline, is on the verge of signing a contract worth more than \$400m (£333m) for up to 15 of the new European Airbus A-320 150-seat twin-engine aircraft.

The airline's interest in the aircraft first reported in the Financial Times last Saturday, was confirmed in Hong Kong yesterday by Herr Heinz Ruhnau, Lufthansa chairman. He said that Lufthansa was now reviewing the final details of the contract, which would call for deliveries to begin in the early 1990s.

"If all is OK, we will sign (the contract) on Saturday to place an order," he said. Herr Ruhnau said Lufthansa is also likely to order a Boeing 747 cargo jet by September, to supplement the three such air-

craft it already has. The Lufthansa order for the A-320 will follow orders already announced by Air France, Air Austral, British Caledonian, Cyprus Airways, Inex Adria of Yugoslavia and Pan American of the U.S.

The A-320 is a short-to-medium range airliner, designed for about 150 passengers, and destined to enter service in 1989-90.

It is under development by the Airbus Industrie consortium whose partners include Aerospatiale of France, British Aerospace, the Government of Spain and Messerschmitt-Bölkow-Blohm of West Germany, with Fokker of The Netherlands and Bolembus of Belgium as associates.

GE Aviation, a member of the GEC group, has won an

initial \$35m contract from the U.S. Air Force and U.S. Navy to supply orders for data computers for aircraft of both forces.

About 1,000 computers are involved in the initial contract, but it includes the option for the U.S. Department of Defense to procure more than 5,000 additional units over the next five years.

Air data computers play a central role in modern military aircraft, providing data, related to airspeed and altitude, required for the correct operation of many kinds of on-board systems, including flight instruments, speed and height control, stall-warning, navigation and weapon aiming systems.

The air data computers for the U.S. will be installed in 22 different types of aircraft.

### SAS orders three new DC-9-80s

By David Brown in Stockholm

SAS, the Scandinavian airline, has ordered three new DC-9-80s from McDonnell Douglas for delivery in mid-1987 to meet growing demand on its European and domestic routes, in a deal worth \$75m (£62m).

SAS has ordered 14 new MD-80s in the past nine months to supplement its fleet of 60 such aircraft, and has an option on a further 15. The MD-80 series is a modernised version of the DC-9 range.

Moreover, it is "in the market" for up to 10 used DC-9s, a spokesman said yesterday.

### Agie alleges patent offence

By John Wicks in Zurich

IN THE latest in a series of patent-violation suits, the Swiss machine tool company Agie Industrial Electronics has instituted a legal investigation in France in respect of spark-erosion machines manufactured by the Japanese group Mitsubishi.

A French judge is said to have approved Agie's complaint and ruled that "evidence gathered in France can be used in all countries of the European Community." Suits are pending in Germany and other EEC member countries.

For more than a year, Agie—the world's leading manufacturer of spark-erosion machine tools—has been suing Mitsubishi in the U.S. for what is understood to be a sum of more than \$10m.

Litigation with regard to patent violation has already led to several settlements with other companies. These include the Swiss company Charmines and the Japanese concerns Brother Industries, Fujitsu-Fanuc and Hitachi-Seiko.



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## UK NEWS

## Bank of England Quarterly Bulletin

## Warning on impact of price inflation in pay settlements

THE BANK of England yesterday voiced its anxiety about rising pay settlements and unit wage costs and indicated that interest rates are set to stay high for some time.

In its latest Quarterly Bulletin, the Bank says that it expects retail price inflation to fall back in the autumn from the present annual rate of 7 per cent.

It appears less confident than the Treasury, however, that annual price rises will fall to as low as 5 per cent by the end of the year, and says that the outlook for industry's costs is not reassuring.

While the recent upturn in the measured rate of retail price inflation has been in part erratic, there must be a danger that pay negotiations will be affected and there are no signs of easing in the pace of increase of averaged earnings," it adds.

The Bank's warning on pay follows the sharp rebuff delivered by Mr Nigel Lawson, the Chancellor of the Exchequer to a plea from the Confederation of British Industry for government action to cut interest rates.

Mr Lawson made clear that borrowing costs would fall only when the Government was certain that

inflation was under control, and called on industry to hold down wage deals.

The Bank says that the level of settlements has edged up during the current pay round, coinciding with a slowdown in the rate of productivity growth.

As a result manufacturers' unit labour costs, which have been a cause for concern since the second half of 1984, are still running far ahead of those in Britain's competitors. The Bulletin also shows the Bank's unease over the rapid growth in recent months of sterling M3.

Since the pound is strong and the narrow monetary aggregate, M0, is well within its target range, the Bank says that structural shifts in the economy may have been responsible for part of the excess growth. Sterling M3 could, therefore, be understating the tightness of monetary policy.

The Bank is nonetheless concerned that the acceleration in bank credit in particular may be signalling upward pressure on inflation, and wants more convincing evidence before allowing any significant drop in interest rates.

## Recovery trend may strengthen

REPORTS BY MAX WILKINSON AND PHILIP STEPHENS

BRITAIN'S ECONOMY is still growing strongly. The pace of expansion may have accelerated in the last few months, but there are grounds for concern over the outlook for inflation, the Bank of England says in its latest Quarterly Bulletin.

The Bank says that the bounce-back in industrial output after the end of the miners' strike and a bunching of investment early in the year make it difficult to assess precisely the underlying rate of growth.

A number of factors, however, point to a stronger recovery than had previously been expected and this trend shows no immediate signs of slackening.

Output probably rose by an underlying 3½ per cent in the first quarter of the year. The unwinding of the strike effects is likely to push up recorded growth to around 4 per cent in the three months to June compared with a year earlier, it says.

The Bulletin highlights Britain's strong export performance over the past few months (in sharp contrast to the disappointing performance for most of 1984), slower growth in imports, and an upturn in manufacturing output.

The improvement in trade perfor-

mance, with non-oil exports in the three months to April, 12 per cent higher than a year earlier, may have come in response to the lagged effect of sterling's depreciation since 1981.

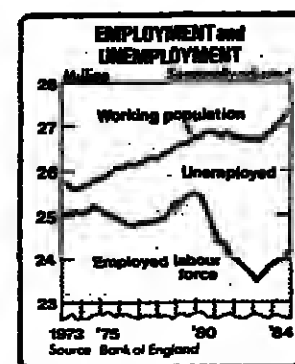
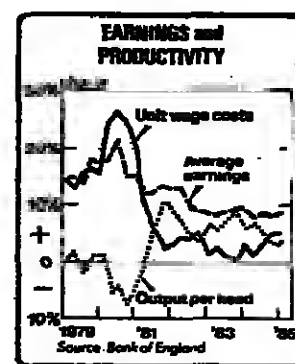
But the Bank adds that the timing of the upturn is puzzling, as is a parallel slowdown in the growth of non-oil imports.

Much of the growth in the economy in the first quarter of this year was attributable to the surge in corporate investment, as companies took advantage of the higher level of tax allowances available before April 1.

The volume of capital spending by industrial and commercial companies rose by 18 per cent in the three months to March, with the bulk of it channelled into leased assets. The pace of investment growth during the rest of the year, however, is likely to slow significantly, perhaps to a level averaging 2½ per cent above a year earlier.

The investment boom and better trade performance has so far more than compensated for a much slower rate of growth in consumer spending, although the overall rate of economic expansion is likely to weaken towards the end of the year.

The Bank's relative optimism



over the outlook for growth is qualified, however, by its obvious concern over the cost pressures which have built up in the economy.

It shares the Treasury's belief that the annual rate of retail price inflation will fall back later in the year, but it voices anxiety over the level of wage settlements and rising unit costs.

The Bank says that a sharp slowdown in productivity growth - despite some recovery in the early months of this year - has coincided with further upward pressure on wage awards.

The underlying annual rise in unit wage costs accelerated to 8 per cent last year from 4½ per cent in 1983, in sharp contrast to the flat or

falling trend in many of Britain's competitors.

The Bulletin points out that part of the impact on overall price inflation has been offset by the weakness of raw material and fuel costs, particularly since sterling's recent recovery.

It gives a warning, however, that there must be a danger that wage bargaining may be affected by the recent upward shift in the retail price index and adds that the present outlook on unit costs "though somewhat improved is still not reassuring."

The implication is that the Bank believes that interest rates should stay high until there are clear signs that cost pressures are weakening.

## Slowdown in growth of major economies predicted for 1986

THE SEVEN leading industrial economies are expected to grow by about 3½ per cent this year, the Bank of England forecasts in its bulletin. Next year, it expects some further slowing down to an annual growth rate of about 2½ per cent, mainly because of the slowing down of the U.S. economy.

Growth in the U.S. is forecast to average about 3 per cent this year but to decline to 2 per cent in 1986.

In Japan and the major European countries, economic activity is expected to stabilise or to accelerate slightly. Growth in Japan is expected to be 4½ per cent this year and 5 per cent next year. In Europe, this year's average growth in output is expected to be 2½ per cent, rising to 3 per cent in 1986.

After a very rapid growth of 9 per cent last year, world trade is expected to expand by 5 per cent this year and next. The Bank says this will further benefit the developing countries and the smaller industrial countries.

It expects inflation in the industrial world will remain subdued with some further falls expected in continental Europe, partly because of the continued tight monetary policies and partly because of some further falls expected in real oil and commodity prices.

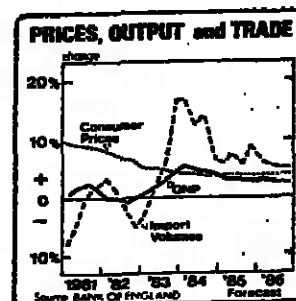
For the industrial countries as a whole, consumer prices are expected to rise by about 4 per cent.

In the U.S., the Bank says domestic demand is likely to be slowed down further by a tightening of fiscal stance, a cyclical reduction in stockbuilding and some slower growth in real earnings leading to a constraint on consumer expenditure.

The past appreciation of the dollar and the associated loss of competitiveness of U.S. industry is expected to continue to result in a leakage of domestic demand into net imports.

The Bank comments that this could be mitigated by any substantial depreciation of the dollar and by the effects of faster growth in competitor countries.

The expectation of faster growth in continental Europe mainly re-



Averages for Canada, France, West Germany, Italy, UK, Japan and the U.S.

fects a forecast improvement in the West German economy, resulting from the tax cuts which have been announced, and from the encouragement to consumer spending which lower inflation could provide.

For Europe as a whole, business investment is expected to grow at an annual rate of 5 per cent to 6 per cent. Although rates of growth of the major European countries are expected to be similar, the Bank comments: "The basis of European recovery remains rather fragile."

The Bank says that the combined current account deficit of the leading seven economies rose sharply to \$28bn in the first quarter of 1985 after its substantial fall to \$9bn in the previous quarter.

This reflected an increase in the U.S.'s current account deficit to \$11bn from \$9bn in the previous quarter, with some reduction of the Japanese surplus from \$11bn to \$9bn.

It says that this year the growth of U.S. domestic demand has been faster than towards the end of last year, and the increase has been satisfied largely by imports.

Capital inflows to the Third World countries without oil have been more than enough to cover the current account deficits, which it says reached \$18bn last year.

The net capital flow into these countries was \$29bn. Official finance of \$28bn, direct investment of \$8bn, borrowing from banks of \$9bn and borrowing via bond issues of \$2bn were offset by an outward capital flow of \$17bn.

## Sterling fall sharpens competitive edge

THE PRICE competitiveness of British industry on international markets was 4½ per cent better in the first three months of this year than in the corresponding 1984 period, and 15 per cent better than in the first quarter of 1981.

But the Bank says the improvement in Britain's competitive position was more than accounted for by the steady depreciation of sterling against other leading currencies.

In the four years from the start of 1981, the pound fell by 50 per cent against the dollar and by 30 per cent against all currencies. If the benefit from the exchange rate is excluded, the underlying competitive position of British manufacturers - as reflected in productivity and cost trends - has deteriorated.

The Bank says that UK productivity growth compares favourably with other industrial nations, but average earnings have been growing more rapidly than those abroad.

In 1983, with unit labour costs showing little change in Britain and

falling by about 1 per cent abroad, the decline in sterling led to a sharp improvement in British manufacturers' relative unit labour costs.

The following year, however, it took a much larger fall in the value of the pound to produce a smaller improvement in relative unit labour costs, because slower productivity growth led to higher UK costs while those abroad were still falling.

The Bank says that although UK productivity growth may have revived in recent months, some further loss of competitiveness is likely to have occurred since the start of 1985. Since then, average earnings have continued to rise strongly while sterling has appreciated sharply.

Exporters were able to increase their profit margins in both 1983 and 1984 in response to sterling's weakness, while higher import prices also allowed a smaller increase in margins on the domestic market.

That trend is likely to have been reversed, however, in the early months of this year.

## MEASURES OF UK COMPETITIVENESS

Percentage changes, Q4 on Q4

|   | 1981   | 1982  | 1983  | 1984  |
|---|--------|-------|-------|-------|
| Price competitiveness in export markets (a) | - 8.9  | 0.6   | 0.1   | - 2.5 |
| Price competitiveness in the UK             | - 8.0  | 0.9   | - 3.1 | - 4.9 |
| Relative unit labour costs (a)              | - 12.2 | - 2.3 | - 6.7 | - 5.6 |
| Profit margins on UK exports                | 2.7    | 2.0   | 4.7   | 0.9   |
| Relative profitability of UK exports (b)    | 2.2    | - 0.2 | 3.2   | 3.4   |
| Sterling exchange rate index                | - 10.5 | - 0.7 | - 6.6 | - 9.7 |

(a) Improvement shown as negative  
(b) Relative to profitability of domestic sales

## Bill arbitrage has small part in higher lending

ONLY a small proportion of the increase in bank lending to the private sector is associated with bill arbitrage, the bank says.

Bill arbitrage is the practice of borrowing against commercial bills which are then sold to the Bank of England, and using the proceeds to earn a higher rate of interest on deposit with banks.

After investigating reports of this practice, the Bank says that the amounts involved nearly always proved to be much smaller than was suggested in stockbrokers' reports.

It says that there had been opportunities for arbitrage in each of the banking months between September 1984 to February

1985. However, the opportunities did not become any more frequent or more attractive in recent months, so that one-month bill arbitrage cannot readily be held responsible for any increase in the amount of bank lending outstanding during the period.

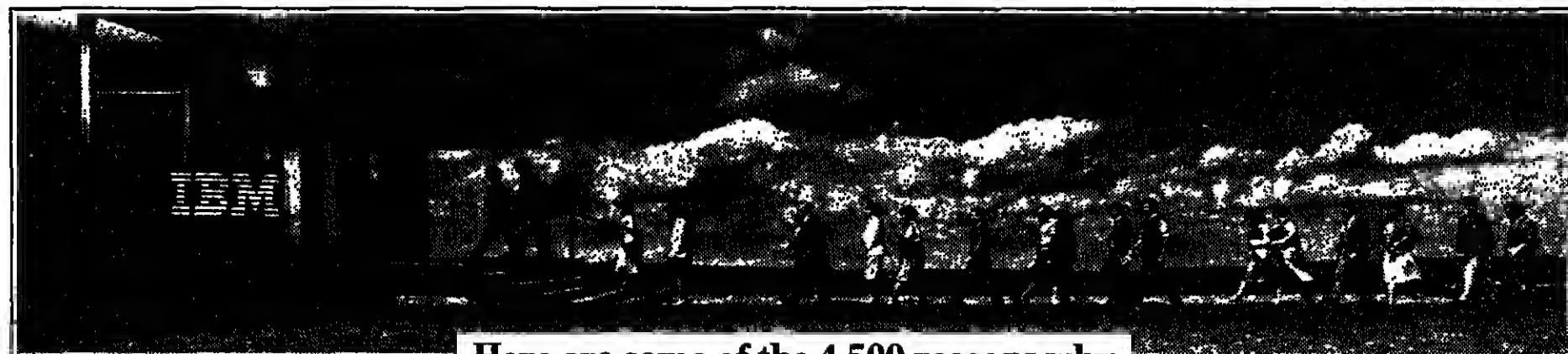
The Bank estimates that the net contribution of bill arbitrage to the £15bn rise in commercial bank lending between August 1984 and April 1985 could be between zero and £500m.

Nevertheless, it has told commercial banks whose bills are eligible for purchase by the Bank, that "it regards the promotion of artificial transactions of this kind as an abuse of eligibility."

UPDATE ON IBM, JUNE 1985.

No. 6

## Two of IBM's most successful factories are in Britain.



Here are some of the 4,500 reasons why.

The IBM factory in Greenock, Strathclyde, is one of the most technologically advanced in the world. 3,000 people visit it a month, to see information technology in action - including advanced manufacturing using robotics.

A star attraction is the Automated Materials Distribution Centre, which is capable of moving 220 tons of components an hour - all under computer control.

Computer links between IBM and suppliers' warehouses, and within the factory, mean that parts arrive for assembly when and where they are needed. Making continuous flow manufacture possible.

Today, the Greenock plant, with 2,700 full-time employees, is one of Scotland's major exporters. But there is another equally important IBM plant in Britain. In Havant, Hampshire, with 1,800 full-time employees.

## COMPETING WORLDWIDE

Havant manufactures IBM's cash-dispensing terminals and finance systems for Europe and it is one of the largest manufacturers of IBM's medium-sized computers.

It is also a major European manufacturer of disk storage devices, which

are assembled in totally clean conditions.

Air has to be filtered to protect both the disk surface and the read/write head flying above it (the gap between them is one tenth the diameter of a human hair).

To help achieve such dust-free conditions, Havant has just installed IBM's most automated clean-room.

Both Havant and Greenock compete for manufacturing contracts against other IBM factories.

It is significant that the two British factories make so many important IBM products for markets throughout the world.

## BRITISH "ADDED VALUE"

Havant and Greenock owe their success, more than anything else, to the skills, ingenuity and dedication of their employees. Which is why IBM puts such a high value upon its people.

IBM hires its manufacturing staff, like all its staff, on the basis that they will be with the company for the rest of their working life.

Neither of the IBM UK factories has ever laid off a single employee. Instead, as products and processes have changed, so IBM has retrained its staff in whatever new skills are needed.

## BUILDING QUALITY IN

In the old days, four or five years ago, 99% perfect was a high achievement.

Today, we measure defects not in percentage terms, but in parts per million.

There is a good reason. A device that is manufactured without defects in either components or assembly, tends to operate without defects.

In 1984, Havant won the first British Quality Award. But to achieve such high quality requires very high motivation.

For example, a team of 20 responsible for logic arrays recently worked for 8 months, completing 90,000 operations without a single error.

We're very proud of that, as we are of all our employees. They have helped make us Britain's 6th biggest exporter\* - exporting 85% of everything we make here.

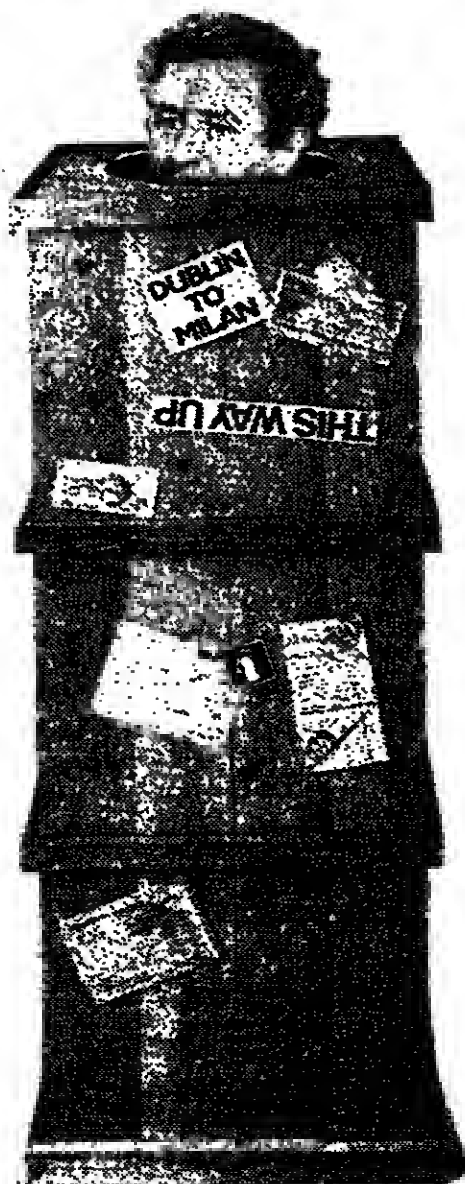
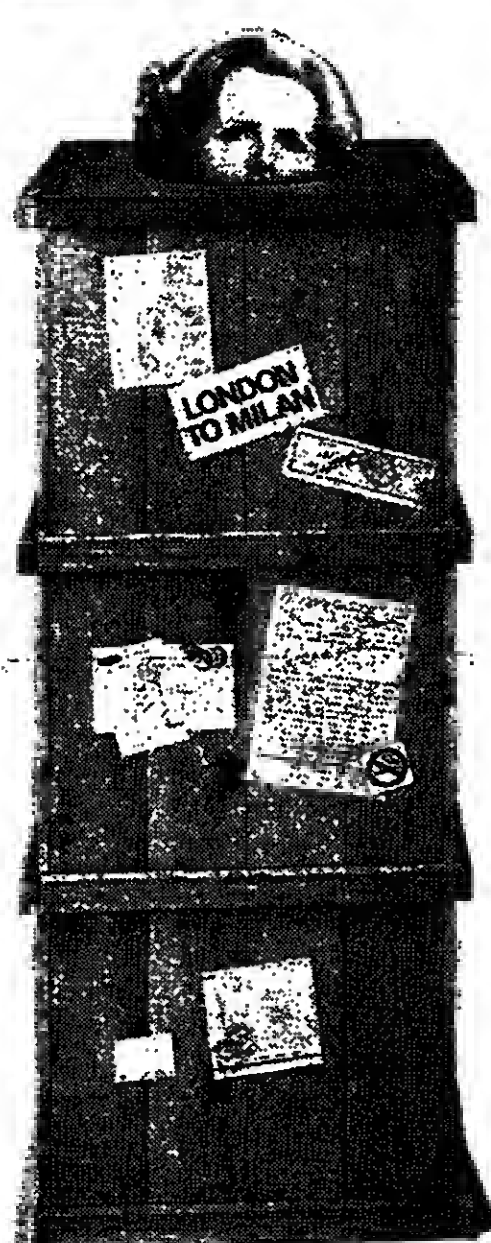
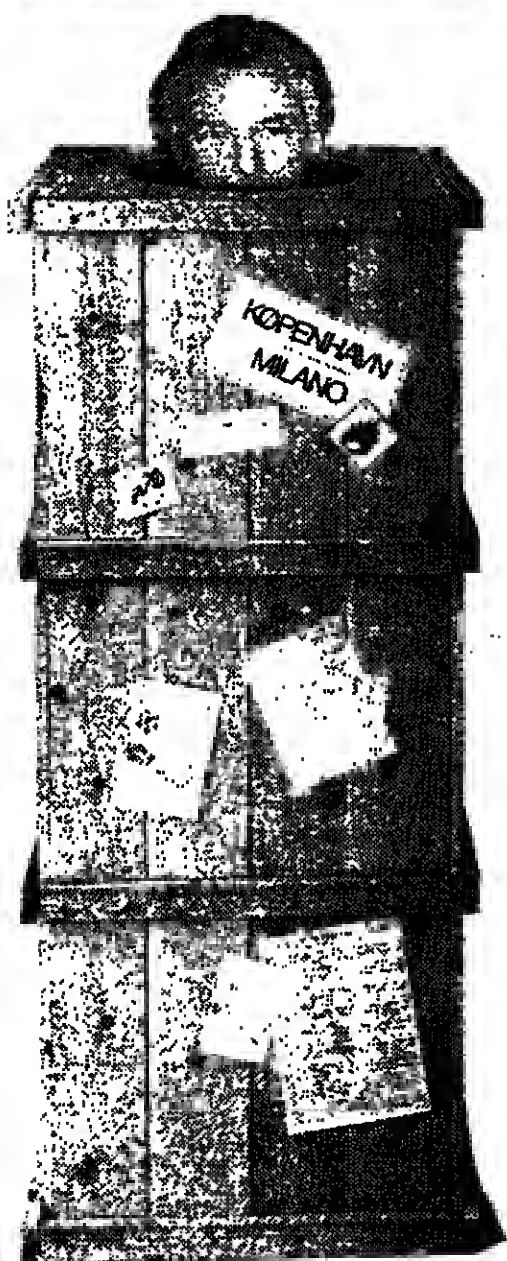
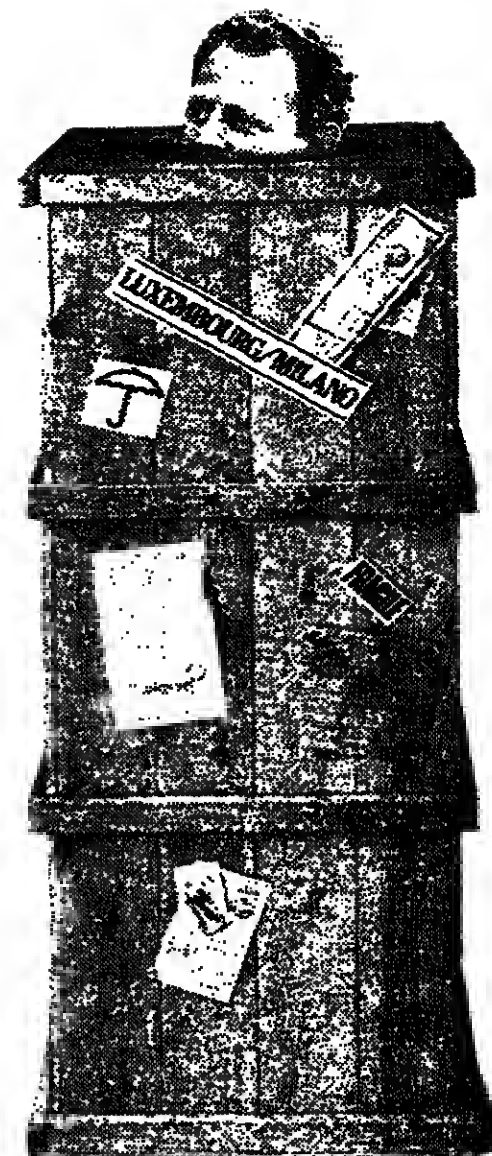
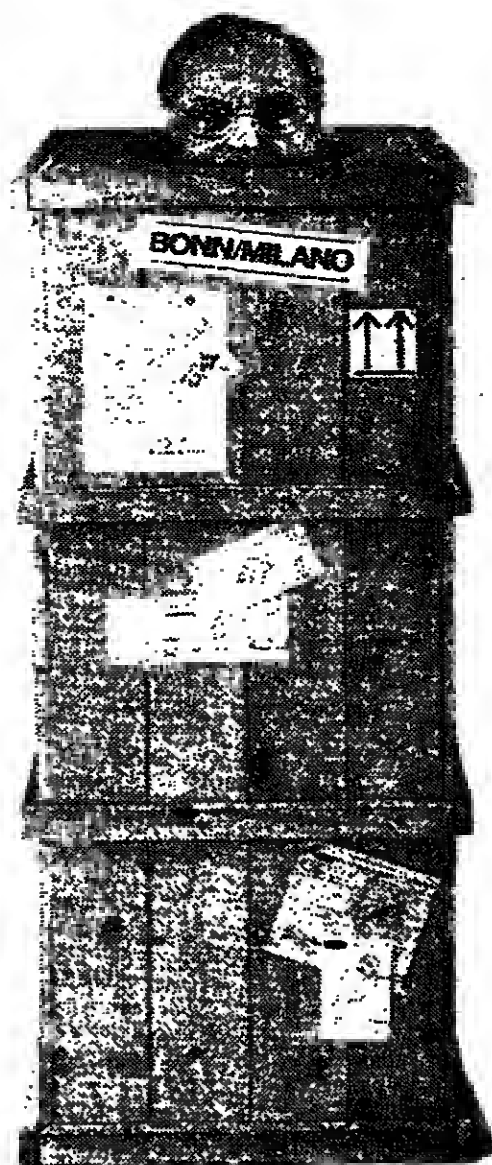
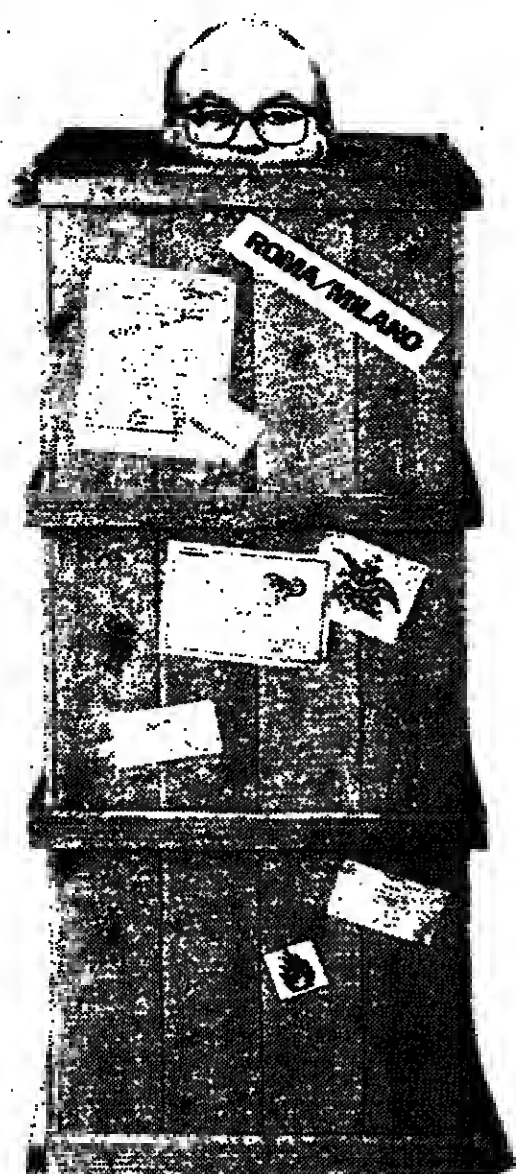
For more information, please write to: IBM United Kingdom Limited, External Programmes, South Bank, London SE1 9PZ.

\*Source: Times 1,000, 1984-85

IBM

JUST THE JOB FOR BRITAIN.





## LADY AND GENTLEMEN IF YOU WERE FREIGHT, THE SUMMIT WOULD BE OVER BEFORE YOU GOT THERE.

Today, the Heads of Government of the European Community countries are meeting in Milan.

The main subject on the agenda is the mess that the Common Market's in.

Lorries are delayed for hours at frontier posts. State companies refuse to buy from other European countries.

Petty laws shut competitors out.

It's a mess we all pay for with high prices and low prosperity.

But it doesn't have to be like this.

Look at the United States. They have a united market that works, and that has created nine million extra jobs in just the past ten years.

By contrast, our European market actually has about the same number of people in jobs as it did ten years ago.

That's what the European Heads of Government can decide to change today—and thereby promote a more united Europe.

PUBLISHED BY THE KANGEROO GROUP OF THE EUROPEAN PARLIAMENT



At B.Cal Cargo  
there's nothing we like better  
than a tall order.



9ft. 10ins. 3.0m

From Tuesday British Caledonian started flying cargo at a new height...9ft. 10ins.

That's the height of cargo we can accommodate on the upper deck of our new Boeing 747 Combi. It's a specially equipped aircraft that divides the passenger deck to accommodate cargo.

To keep up with the future demands of the air cargo industry we are thinking big, so our 747 Combi flies seven days a week\* to New York's JFK airport.

By thinking big we're adding extra capacity, extra height and extra tonnes. In fact, any container or pallet in

the cargo industry can be accommodated in our Combi, as well as large volume shipments such as vehicles, boats, helicopters, even heavy machinery.

Thinking big hasn't made us big-headed. But we are proud to say that there's one thing which sets us apart from other airlines, and that's our people. Their dedication, care and commitment have made B.Cal Cargo one of the world's leading carriers.

So when you give us a tall order we welcome the challenge, because we know our people come up to the mark.

B.Cal Cargo, with our new Combi and the best people, we've got a big future.

**BUCAL  
CARGO**

**Our people make us better**

\*A DC10-30 replaces it once every fourteen days.



## UK NEWS

## Bank of England gives guidance on Westland

BY CHARLES BATCHELOR

SIR JOHN CUCKNEY, newly-appointed chairman of Westland, the struggling British helicopter maker, denied yesterday that either the City of London or the Government was working on a financial rescue package for the company.

The Bank of England did confirm, however, that it had provided guidance and a forum for discussions aimed at resolving Westland's difficulties.

Talks that have taken place over the past few weeks have been aimed primarily at solving questions such as the make-up of the board - Sir Basil Blackwell resigned as chairman on Wednesday to make way for Sir John - and re-establishing the group's credibility with government and non-government buyers.

Westland's decision to accept the £20m takeover bid launched in May

by Mr Alan Bristow's Bristow Rotocraft, after initially rejecting the bid, was seen by many in the City and within the company as indicating an "erratic" management.

When Mr Bristow took the surprise decision on June 21 to drop his bid, Westland was left still looking for a strong international partner to help it through the next few years when orders seem likely to be short.

"It is absolutely wrong to say there is a rescue package," Sir John Cuckney said. "I have only been chairman for 16 hours but there is not, as far as I know, an immediate financial problem."

The Westland board plans to wait for the results of a review of its operations being carried out by Price Waterhouse, the accountants, before taking any decisions on its future. It has said, however, that it

would be best served by an alliance with a large international company.

One alternative, of reducing the size of the group's business to concentrate on specialist niche markets, appears to have been rejected because of the time and money needed to develop new products.

The priorities of the board, under Sir John, are to re-establish the group's credibility and to improve relations with the Government, an important customer. Previously, Westland's relations with ministers were not particularly good.

There appears no prospect of either the Government or the Bank of England providing funds in the longer term to the company, or of the Ministry of Defence's buying the Westland 30 helicopters originally ordered by India. That order is now unlikely to go ahead.

## Shell sees prospect of stagnant oil demand

BY IAN HARGREAVES

OIL DEMAND could be stagnant during the next decade, but the most likely prospect is for a slow rate of growth, according to a series of forecasts published yesterday by the Royal Dutch/Shell group.

In presentations to security analysts, Shell executives sketched out two possible pictures one which envisages the world overcoming its problems of trade friction, debt crisis and economic rigidity and a second which sees the global economy lapsing into a fragmented, protectionist state.

In the first possibility which Shell calls the "next wave" outlook, there would be high levels of economic growth, but advancing technology, interfuel competition and higher energy prices would curb demand for oil. Free world oil demand would scarcely rise at all until the late 1990s.

The "dividend world" possibility, although producing lower economic growth, envisages weaker oil prices and demand is forecast to rise from today's level of around 40m b/d to about 53m b/d by the turn of the century.

Mr L.C. van Wachem, president of Royal Dutch, said that oil companies had to face the possibility that oil prices might drop significantly.

The impact of such a development, he said, would vary from oilfield to oilfield and company to company, especially since governments could be expected to ease fis-

cal terms to encourage companies to go on working. "A fall in oil prices might not be as disastrous for oil companies as is sometimes suggested," said Mr van Wachem. "Nevertheless, the impact on some companies could be severe enough to cause a further shake-out in the industry."

Mr van Wachem also set out Shell group policy for the future in a number of key areas:

● On oil companies buying back their own shares, he said that Shell had no plans to follow the example of companies such as Exxon, which had spent more than \$4bn on its own shares in the last two years. "Share repurchase should only be considered when the cash availability is expected permanently to exceed the long-term requirements of the business," he said.

● Shell Oil, the U.S. subsidiary of the Shell group, whose acquisition was recently completed, will operate without any change to the management or board.

Large-scale, international diversifications are not under consideration, but the group is anxious to enter new fields on a modest scale through what it terms "learning platforms."

● Having just announced the \$1bn purchase of a stake in Occidental's Colombian oil discovery, shell says it is still in the market for attractively priced oil and gas assets.

## Talbot to cut car kit production

By Arthur Smith

TALBOT, the UK subsidiary of Peugeot of France, is to make up to 250 workers redundant and cut production on its troubled £130m a year contract to supply car kits to Iran.

The cuts will be made in spite of news that about £70m has become available from Iran, both to finance the purchase of 34,000 car kits stockpiled in Britain and to enable production to restart at Talbot's Stoke engine plant at Coventry.

Workers at Stoke, laid off since the beginning of June, will be recalled on August 5 but weekly output will be reduced from about 1,800 kits to 1,200. Talbot reported last night that it had already had "quite a high response" to its call for up to 250 volunteers for redundancy.

Union leaders seemed resigned to the announcement and sceptical about the long-term future of a contract subject to repeated disruption in recent years. "If one group of workers deserved a bit of good luck, it is ours for their patience," said Mr Duncan Simpson, the engineering union convenor.

Talbot insisted the Iranian contract still had a long time to run and was important to the Stoke plant. Problems with payments from Iran halted work on the deal in early June after a seven-week standstill earlier in the year. No kits have been shipped to Iran since last November.

The latest hold up was caused by difficulties with a complex barter arrangement which Talbot had previously claimed should provide continuity of payment well into next year.

About £50m is now thought to be available to finance the transfer of the 34,000 car kits to restart engine assembly. Another £20m will fund future production in Coventry.

The disruption to the Iranian contract is likely to push Talbot back into loss after two profitable years. In 1983 the company recorded a net profit of £3.1m after accumulated losses approaching £400m over the previous decade.

Mr Geoffrey Whalen, the managing director, warned in his annual report that problems with Iran were a key factor in reducing the 1984 net profit to only £271,000. Export to Iran in 1984 was £7,500 kits against £7,000 the previous year. The latest cuts should still provide for the supply of about 50,000 kits a year.

Crucial to Talbot's UK plans is the C28, a medium-sized hatchback that will go into production at the Ryton assembly plant, Coventry, this autumn with the support of a £20m investment by Peugeot.

## Union threatens strike over steel closure

BY OUR LABOUR STAFF

LEADERS of the Iron and Steel Trades Confederation said yesterday that they were prepared to ballot one fifth of the union's labour force on strike action if British Steel Corporation (BSC) went ahead with its plan to close the Tinsley special steels plant in Sheffield.

Their decision in conference at Jersey yesterday raised the prospect of the first major confrontation in the UK steel industry since the national stoppage of 1980.

The union is also seeking legal advice on taking out an injunction against BSC in an attempt to halt the rundown or closure of the works on the grounds of lack of consultation.

● The Transport and General Workers' Union, Britain's largest union, yesterday rejected a move to bar from office members of the

Trotskyist group, Militant Tendency.

After a divisive and emotional debate at the union's conference at Bournemouth, delegates voted by about 2-1 in favour of a statement from the executive opposing "bans, proscriptions and witch hunts" within the union and the Labour Party.

This decision was taken even though the conference had given a standing ovation on Monday to Mr Neil Kinnock, Labour Party leader, for a speech in which he talked of giving "the short arm chop" to extremist groups.

Mr Ron Todd, general-secretary elect, said the union did not want to return to the situation of post-war years when Communist Party members were banned from office. "The cold war atmosphere was allowed to grip the union with division, strain and suspicion," he said.

## Liffe launches options market with fierce battle in view

BY ALEXANDER NICOLL

A RITUAL BELL was rung yesterday by Mr Norman Tebbit, Secretary for Trade and Industry, to launch trading in options on the floor of the London International Financial Futures Exchange (Liffe).

As the perfunctory opening ceremony approached, option traders dressed in the many-coloured jackets traditionally worn on futures exchanges crowded round the new options pitch - located at one end of Liffe's trading floor under the dome of the Royal Exchange.

Traders in the exchange's Euro-dollar futures pit, meanwhile, refused to be outdone. Their shouted bids and offers all but drowned out Mr Tebbit's few words of encouragement.

With business safely under way, Mr Tebbit said options offered new opportunities for protection against economic risk.

"They offer, particularly to those in international trade and commerce, a means of coping with uncertain currency exposure - a problem that in the past has played havoc with profit margins."

He added, "To maintain its position as an international financial centre, it is essential that London

offers a full range of financial services to match its foreign competitors." Currency options extended the protection offered by financial futures against volatile markets.

Liffe's sterling/dollar option, one of the two contracts launched yesterday, will compete against London Stock Exchange options introduced in May. It will be a fierce battle, with the market as a whole believing - and the participants acknowledging - that only one marketplace for currency options can be successful in London.

The sterling option is intended to appeal to banks and companies wishing to hedge their currency risks, as well as to speculators who can obtain a highly leveraged investment.

Providing the right to buy or sell £25,000 in exchange for dollars at a specified rate any time before expiry, it is twice the size of the stock exchange's option and therefore less likely to attract small investors.

Even less for the man in the street is Liffe's second option, which provides the right to buy or sell its own futures contract based on U.S. \$1m Eurodollar three-month deposits. But the contract is

expected to appeal to banks operating in the huge Eurodollar market, as well as to companies and portfolio managers seeking more efficient management of their liabilities and assets.

Liffe, which claims to be the world's largest futures market outside the U.S., is offering a powerful incentive to establish itself as a recognised marketplace for options. Members who have subscribed to the options market will pay no transaction or clearing fees until the end of September.

The exchange has also introduced a new system similar to that in futures markets where participants initially pay only part of the cost of a contract, adjustable depending on the market's movements. The system, offered by no other exchange, will enable members to offset their futures and options positions against each other.

Liffe has received 177 applications to trade options.

With options contracts springing up on exchanges around the world and business booming, especially in Chicago and Philadelphia, Liffe also plans an option on its long-gestating futures contract.

## Europe, June 1985.

In the exclusive middle-range saloon market, there's now a completely new reason for choosing the BMW 5-Series. It's the competition.

Are you aware of all the facts?



Over the past few months, BMW 5-Series competitors have been getting quite excited.

As a result of some admittedly not entirely uninteresting new model introductions. We welcome the news.

Because it at last gives Europe's more demanding drivers a real basis for checking out which car actually offers them the best value for their money. Naturally, you can take features like high quality construction, a contemporary design concept, exceptional standards of comfort and safety for granted in any internationally recognised car of this class. And they're all reasons enough for driving an above-average car.

However, we still don't think they're enough to help you choose between the very best alternatives at this level.

We believe it's essential to take a closer look at the fundamental differences between the leading makes before making your decision.

So we'd like to give you a few factual hints in that direction.

## 1. Electronic fuel injection.

You'll be surprised how many cars with impressive-sounding names, and equally impressive prices, still offer conventional carburettor technology.

Not so BMW. More than anything else, BMW exclusivity stands for the very latest in automotive technologies.

That's why you can take all the performance, economy and environmental consciousness of electronic fuel injection for granted with BMW, starting with the 518i. Not only a significant contributor to long-lasting quality but also to lasting value.

## 2. Digital Motor Electronics. 5. Contemporary.

These days, any so-called quality car range that doesn't offer you Digital Motor Electronics, isn't offering you the best in engine technology.

With BMW, you'll discover it's already a standard on the 525e. Digital Motor Electronics (DME) - the completely computerised engine management and control system - ensures far-reaching fuel-mix and ignition advantages, in terms of performance, economy and exhaust emissions, even when used in conjunction with a catalyst.

As many as four of the 5-Series models feature DME: a technology you'll search for in vain on comparable cars of another make.

## 3. 6 cylinders from 2000 cc.

An in-line 6-cylinder engine guarantees noticeably smoother running refinement than 4 or 5 cylinders.

BMW gives you all the benefits from as low as 2 litres.

The fact that it's universally accepted that 6 cylinders are a prerequisite for really top-class motoring refinement is amply illustrated by the number of manufacturers who offer it on their higher capacity and higher priced models.

A BMW owner is someone who isn't willing to compromise on refinement even at two litres.

## 4. No class constraints.

You can also judge the quality of a model range by its top models.

With the BMW 5-Series you can get up to 3.5 litres capacity and all the torque and unrivalled performance that goes with it. Although the BMW 5-Series models belong to the so-called "exclusive middle-range" category, they nevertheless reflect - especially the high performance 535i, M 535i and M 5 versions - many of the superlative qualities of their larger stablemates, particularly in the exceptional ride and safety reserves of their advanced suspension system.

The BMW 5-Series doesn't just meet the strictest quality criteria. It also reflects the demands of our time. BMW exploits the most advanced technologies available to resolve the conflict between dynamic and responsible driving. And the BMW 5-Series combines the classic sporting personality of a BMW with a strictly functional sense of style to create a car with a truly unique character: the concentration on inner values, without the usual obtrusive demonstration of status, leads to a pleasingly new and unpretentious dimension in exclusivity - an understatement that takes a positive step towards the more critical and rational attitudes of our day.

If you compare, point by point, the various alternatives in terms of price and value, you're sure to come to the same conclusion as us. There's really only one answer: BMW is the better way to drive.

But that's something you should experience for yourself. So why not ask your nearest BMW dealer for a personal test drive?

Model and equipment availability in the BMW international range may vary from country to country.



BMW AG, Munich



# THE PROPERTY MARKET BY WILLIAM COCHRANE

## P & O GROUP

### Town & City in the Triangle ...

A MAJOR planning battle, and a crucial test case for green belt development around London's M25 orbital motorway, is predicted following Town & City's selection as prospective developer for the "Golden Triangle"—the 90-acre Bricklet Wood site at the M1/M25 interchange north west of London, between Watford and St Albans.

Town & City, part of Sir Jeffrey Sterling's recently merged P & O/Sterling Guarantee group, already has its hat in the M25 ring with a bid for a £200m retail and leisure complex at Thurrock, north of the Dartford Tunnel, where it is in competition with a Capital & Counties/Pearson group proposal.

For the Triangle, it has been selected from a short list of seven developers to negotiate with the two owners of the site—the Department of Transport and the trustees of local landowners—to purchase an option.

Thus armed, its next move is to approach St Albans City and District Council, the planning authority, for discussions and, ultimately, permission to develop the site. This is where the trouble begins.

Both the districts, and the Hertfordshire County Council's structure plans designate this site as metropolitan green belt and an agricultural priority area. St Albans does not like the prospect of being sucked into conurbation, initially with

Watford or eventually with Greater London. Mr Brian Rigby, leader of the Alliance-controlled district council, commented: "The developers will not get from this district council—and this is a unanimous, all-party view—acceptance for any development which is not green belt or agricultural."

He said that Mr Patrick Jonkin, the Environment Secretary, had said in direct response to St Albans and Hertfordshire queries, that the impact and effect of motorway development would not lead to the obsolescence of green belt policy—this in October last year; and, later, that a planning appeal would not be proposed.

"When I put SGT and P & O together," recalls Sir Jeffrey, "it was a merger of many complementary interests and we were hoping for synergy. Now we have it, with Town end City and Bovis working together."

T & C is joint project manager, and Bovis responsible for construction, in a new P & O project to refurbish or redevelop P & O's former headquarters, Beaufort House in St Botolph Street near Aldgate.

The most remarkable feature of this project is that it takes in Stockley in a joint venture, and as joint project manager. P & O and Stockley have

granted if it were in breach of county or district structure plans.

The Department of Transport collects some stick for being a party to the marketing but what, it asks, was it supposed to do? The land, part of that purchased for motorway construction, is surplus to requirements; the department is under an obligation to sell, it says. It knows only too well the brickbats it would get if the land were sold, classified as Grade III agricultural, and subsequently got permission for commercial development.

As for T. and C., deputy chairman Ron Jennings says it intends to ask for a very low

density scheme incorporating some retailing, a business park, some leisure and an hotel—and a great deal of landscaping," he says. "Paying particular attention to the architecture to make it of domestic scale—not high rise."

"We feel that access, which can only be from the A405 (third log of the triangle, with the two M-ways) should be made as good as possible, via a flyover or flyunder," he says. "We are also conscious of the footings and views of residents of the Bricklet Wood housing area directly across the A405—where traffic is such that residents frequently cannot get in or get out."

There are long standing plans for another centre on Western Esplanade in the city, now known as the Marlborough development, where Horon Corporation and CIN are looking for a retail content which has been cut back, and is now estimated at between 200,000 and 250,000 sq ft.

Royal will acquire the freehold of the site. It was advised on the acquisition by St Quintin, while Dunning's agents were Sutton Commercial. The Bargate Centre will represent Royal Life's second largest retail commitment

## Royal funds Bargate

ROYAL LIFE is to fund Dunning Developments' £25m, 155,000 sq ft Bargate Centre in Southampton on a site at the bottom of Above Bar, the city's main shopping pitch.

The scheme, says Royal, will be Southampton's first major shopping development, comprising fully enclosed shopping malls with retail and storage accommodation arranged on four levels. It will also incorporate a central atrium leading to a new 240 space multi-storey car park at the rear.

Royal says that the scheme has the support of the local council and is expected to obtain planning consent shortly. Construction work is expected to start early in 1986 and will take about two and a half years to complete.

There are long standing plans for another centre on Western Esplanade in the city, now known as the Marlborough development, where Horon Corporation and CIN are looking for a retail content which has been cut back, and is now estimated at between 200,000 and 250,000 sq ft.

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## Decentralisation moves continue

THE ENTIRE 140,000 sq ft of offices contained in the Quadrant Centre, Redhill, a £40m town centre development on the southern stretch of the M25 by Norwich Union Insurance—in partnership with Surrey County Council and Reigate and Banstead Borough Council—have been pre-let by sole agents Jones Lang Wootton to Lombard North Central.

In a major decentralisation move, the NatWest subsidiary is paying a rent of £15 per sq ft. Elsewhere, Dimsdale Developments (South East) has attracted the makeup group Max Factor to its 21,775 Watermans Park office scheme at Brentford Riverside. Max Factor, decentralising from Davies Street in London's West End, is taking the whole scheme at a rent of £205,000 per annum.

Stockbrokers Serlinghouse Vickers say that Stock Conversion's 230m White City deal with the BBC helps raise its asset value from a March 1985 level of around £50p a share to a current estimate of 60p.

Peter Levy, a director of Stock Conversion, thinks that its pre-emptive rights on the BBC's key, freehold Langham site in the West End of London—secured as part of the White City deal—could

be useful within one to three years.

Paul Hamlyn and Sir Terence Conran, in a partnership advised by Jones Lang Wootton, have paid a reputed £8m for the freehold of Michell's House, the tyre company's 90,000 sq ft headquarters at 81, Fulham Road, Chelsea, London SW3. Michell's were advised by Gerald Eve.

Plans include offices on the upper floors, a major store at ground and basement levels and a new restaurant within an "extensive and sensitive" renovation of the building, built in only five months in 1910, which now has a Grade II listed facade.

Colliers Bigwood & Bewlay acting on behalf of the Harris & Sheldon Group have disposed of the former English Rose Kitchens Factory, 126,300 sq ft at Wednesbury Lane, Warwick to Volvo Trucks. The price realised for the property, over £11m, includes some 4.55 acres of further development land.

Cadillac Fairview and Dagen Development have sold their jointly owned, 605,000 sq ft office building at 444 Markot Street in San Francisco to two public limited partnerships sponsored by Merrill Lynch Hubbard for U.S.\$140m (£108m).

## Putting Cork in position

STRUTT AND PARKER partner Peter Banks, acting for the American owned Thomas Cork (Service Merchandise), saw the second phase of the company's new office/factory/warehouse complex at Lenton Lane, Nottingham, come in on target this week.

Cork puts goods on superstore shelves, it is growing fast and it wanted its new building in a hurry. Banks says that the purchase of the land, an old rubbish tip, went through last September, planning permission came in a couple of days and the builders were on the site in three.

"I would normally expect a gap of eight or nine months between site purchase and the start of building work; and 18 months' construction, meaning a total period of 24 to 30 months between purchase and occupation," he says.

In this case Cork had to move into its assembly section in May of this year, and did so. Strange space, another major area, followed this week and the ancillary office space will follow in September.

Strutt's worked with local agents, Nattrass Gilets. Vigers as project managers and Conder Projects (Midlands) as the contractors. Mr Banks says that the building has lost nothing in architectural quality from the speed of its construction. Cost of the project was in excess of £3m.

## ... and synergy in the City

invested £8m each in Beaufort House Development which will acquire the long lease of the property, now held by P & O, for £15m.

P & O opened up discussions on Beaufort House, first with London and Edinburgh Trust but then more extensively with Stockley, when Sir Jeffrey was chairman of both P & O and SGT but while those two companies were still apart. By the time they merged, says Sir Jeffrey, discussions with Stockley were so advanced that it was decided to continue.

Both Sir Jeffrey and Elliott Bernard, director of Stockley, see it as significant that this

is yet another development where two or more principals have pooled their interest in what could be a costly deal.

Mr Bernard emphasises that the decision to redevelop or refurbish has not been taken yet. But he says that refurbishment could take a limited cost while the two companies were still apart. By the time they merged, says Sir Jeffrey, discussions with Stockley were so advanced that it was decided to continue.

Both Sir Jeffrey and Elliott Bernard, director of Stockley, see it as significant that this

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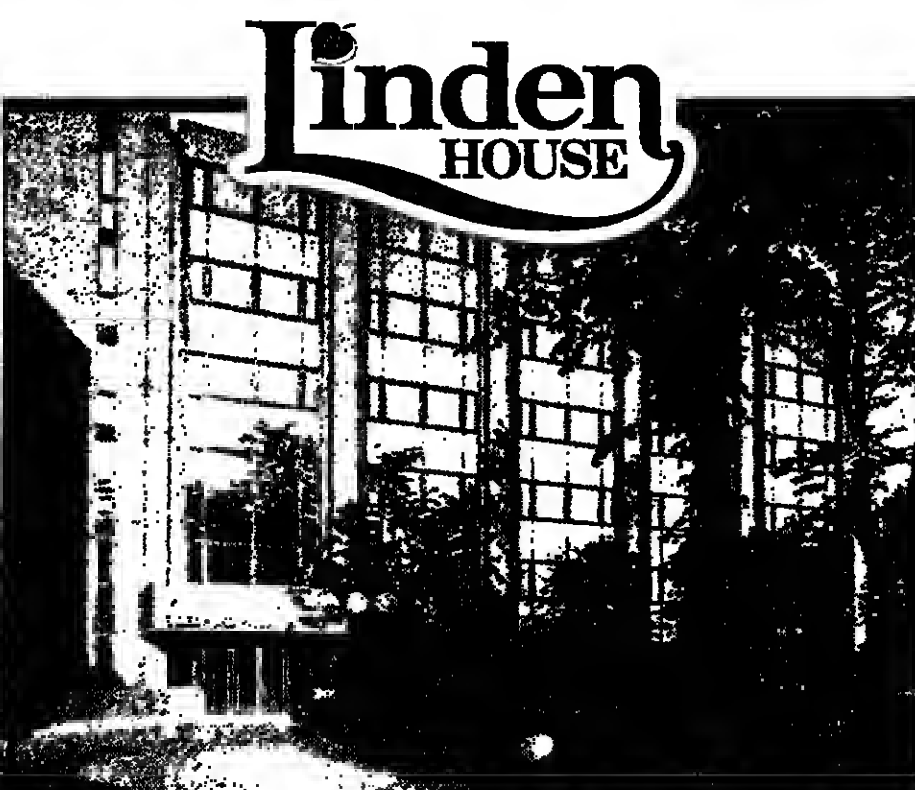
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## MANAGEMENT

EDITED BY CHRISTOPHER LORENZ

## Fast food

## Big Mac triumphs over culture gaps

Carla Rapoport compares the U.S. chain's UK and Japanese operations

WHEN McDonald's, the U.S. hamburger giant, opened its first British outlet in 1974 with the offer of a free meal for any family, absolutely no one came.

Three years earlier, McDonald's opened its first restaurant in Japan, in the heart of Tokyo's fashionable Ginza district. The store was mobbed.

Today, McDonald's is a big bit in both countries—Japan rivals Canada as McDonald's most prosperous overseas operation, while McDonald's UK is one of Britain's fastest growing companies in the UK fast-food industry. But aside from selling the same all-American menu, the paths to success for the two McDonald's outlets have been about as different as a hamburger is from a French fry.

At first glance, one could be forgiven for missing the contrast. In Tokyo or London, McDonald's restaurants are unmistakably decorated in reds and yellows while inside, details like how much ketchup is squirted on each cheeseburger are strictly observed. But when it comes to management, there appears to be no identity for McDonald's people. The American staff in Britain is skeletal; every store manager is a Japanese home. For three years now, McDonald's Japan has ruled as Japan's largest restaurant company, in terms of sales. Den Fujita, president and 50 per cent shareholder of McDonald's Japan, exudes that success in a manner which would make even the bluest American blush.

"If I were Japan's ambassador to the U.S., I would have the trade friction problems solved in a week. If I were head of Coca-Cola in Japan, I'd double their sales in two

weeks," says Fujita. While Fujita's diplomatic abilities remain untested, his management capabilities in Japan, a notoriously difficult market to penetrate, cannot be denied. In the last 15 years, McDonald's sales in Japan have climbed from nothing to an expected ¥130bn this year, of which Fujita gets one per cent. Profits are expected to be nearly ¥11bn (£34.5m). McDonald's plans to go public in Tokyo next year with forecast sales for 1985 of ¥200bn.

## Foreigners

The Japanese, he says, love foreign goods, but don't particularly like foreigners. "Frankly speaking, we don't like any foreign people, Chinese, Korean, anyone," he says with a broad smile. As a result, he pushed McDonald's Japan down a neutral path. The new restaurants made no direct mention of the U.S. For example, they used no stars and stripes decorations, or American advertisements. Further, he knew that fashions in Japan caught fire in city centres and moved outwards. So he threw out the U.S. concept of suburban McDonald's and spent nearly a year negotiating with Mitsukoshi, one of Japan's oldest department store chains for the right to open the first McDonald's on the ground floor of its Tokyo flagship store. Once he had his location, he then mounted a heavy advertising campaign and opened the store on the first day of Japan's summer holidays. Children and teenagers have been flocking to McDonald's ever since.

Japanese children today, he claims, believe McDonald's is a Japanese company with conveniently located branches in America. "It's the mixture of inferiority and superiority that you have to stimulate," he says.

"There are no Americans in this office. I refuse to have any." His flair has attracted like-minded Japanese, some of whom have come from establishment firms like Exxon to join McDonald's.

In the UK, McDonald's was slower to take off for two major reasons. First, the American company had a devilishly difficult time getting the UK food industry to meet its requirements and second, it had to overcome the basic scepticism of the English customer.

"People hadn't had a satisfactory eating experience from hamburgers," when McDonald's arrived in England, according to Bob Rhea, the founding joint-venture partner in McDonald's UK. "In England, people vote with their feet. They complain about something; they just won't come back," he says.

As a result, he says, finding dependable suppliers became crucial to the company's success. And in this regard, the U.S. group ran into the bedrock of conservatism which runs through the UK food manufacturing industry. "We had to achieve McDonald's quality, consistently. So, in the beginning, we imported like mad. We really found that a great part of the British food industry had no confidence in McDonald's. They thought that customers of fast-food outlets had no loyalty," says Rhea.

The national butcher shop chain which refused to answer Rhea's calls 10 years ago must be kidding itself today. McDonald's UK is now one of Japan's largest beef purchasers. For its hamburger rolls, McDonald's set up a joint-venture bakery in the UK which is now the country's largest producer of these rolls, making nearly 2m a week.

This year McDonald's UK will have sales of well over £100m and more than 12,000 people working for it, making it a larger employer than Habitat-Moethers. Some 85 per cent of its employees, however, are part-time, with 75 per cent of the total under 21 years. Minimum wage at McDonald's is £1.60 an hour.



"Some 85 per cent of McDonald's UK employees are part-time, with 75 per cent of the total under 21 years"

Unlike Japan, McDonald's UK has been unashamedly American in its promotions—outletting the American breakfast and happily admitting to its American parentage. It has also focused on suburban locations, finding the only barrier to its growth is local planning laws which bar restaurants from occupying former retail premises. The company reckons it could open six extra restaurants a year if these laws were relaxed.

## Similarities

For all their differences in management style, there are some unexpected similarities between Japan and the UK McDonald's. McDonald's basic business formula in both countries is to build sales, not cut costs. Thus, in Japan as well as England, the people pushing McDonald's hamburgers are almost as important as the products they are selling. Considering that most of the employees are previously unemployed teenagers, this concept bears some exploring.

McDonald's Japan not surprisingly has attracted a host of local competitors, such as the Love hamburger chain operated by Morinaga, the confectionery group, and Mos Burgers, an independent company. Mos for example, includes Japanese fast-food items on its menu, while Love offers an even wider range of American goodies, such as tuna and melted cheese on a English muffin. Neither chain is anywhere near as successful as McDonald's.

The reason for McDonald's continued success despite this competition, according to

industry executives, is the consistency of its products and the high level of training it gives its people. "Where else in Japan can you find a Hamburger University," comments an executive at one of Japan's leading food suppliers. "It isn't really a university, but kids love the idea." All trainees undergo a short course at the "university."

McDonald's UK also has its "university," located at its Marble Arch offices. Paul Preston, the company president, has a degree in hamburgerology framed on his wall. "It is a way of getting involved in the whole concept. Sometimes I think if you cut a McDonald's employee, he would bleed ketchup."

In both countries, employees who serve customers wear plastic name badges with five holes for stars. These stars are bestowed when the employee masters a major area of responsibility, such as buns and dressings or fillets and pies. Thirty-five per cent of McDonald's UK store managers work their way up from buns and dressings into white shirts and ties. Even the finance director spent a few days grilling Big Macs to get a feel for the business.

In talking to McDonald's employees, one often sees a kind of starry-eyed look of satisfaction on their faces. But then, with a vast majority of employees working part-time, those who don't do well are gently guided into leaving. McDonald's Japan, as a result, has no problems with life-time employment expectations. Out of its 37,000 employees, only 2,000 are full-time.

## Power of directors

## 'A better balance on boards is desirable'

Jonathan Charkham examines the delicate issue of accountability

THE SUCCESS of an individual company depends upon the quality of its board; the success of an industry upon the companies that comprise it; the success of the UK economy upon its industries. It is right, therefore, that the quality of boards should be a focus of attention.

This explains why the Bank of England, with the evidence before it of many inadequate boards among the cases it has handled, led the City institutions, the Confederation of British Industry and the British Institute of Management into setting up PRO NED three years ago.

PRO NED's task was to persuade companies to improve the quality of their boards by appointing a sufficient number of able, independent directors. It can reasonably claim that from a starting point of 100,000 in 1982, the number of independent directors has risen to 150,000. The proportion of non-executive directors on major company boards is rising, though the total number is not—because boards are getting smaller. The study, however, brings out sharply for the first time the distinction between "non-executive" and an "independent" director.

Nearly one-third of the "non-executives" studied either have or had a professional relationship with the company or had been executives. It is well known that the degree to which boards are accountable is extremely limited. What the Bank's study suggests is that, although there are many admirable exceptions, most UK boards are still dominated by executives. In practice this usually, but not always, means domination by the chief executive.

No one doubts that the single most important ingredient of success is the quality of top executive management. The study figures suggest that the top executive in many companies is not really accountable to the board since, if they are executives, they are his sub-

ordinates. Does this lack of accountability matter? The answer is clearly yes. Lack of accountability does not necessarily produce inefficiency but it makes it hard to check it when things start going wrong. That is why so many executive-dominated companies alpha for a time, often quite brilliantly, and then falter so badly. A better balance on boards is clearly desirable—but can it be achieved by leaving it to them to put their own houses in order? These issues touch on power and patronage and few things are more sensitive. What changes, in broad outline, seem desirable?

## Need to have a real role

The first and least controversial would be to give shareholders more timely and better information about the directors they elect. It is plainly wrong to bounce names upon them at short notice without adequate information. It would be better if names of those to be elected or re-elected were circulated to shareholders with full information at a decent interval—say two months—before the annual general meeting. The annual report should summarise this information about those already on the board—indeed some companies already do.

Secondly, all PLCs (not just the big ones: some of the worst practices are in the small ones) should have a minimum proportion of truly independent directors on the board, even perhaps a bare majority.

Thirdly, the independent directors need to have a real role, but without destroying the essential unity of the board and the valuable constructive role they play on the UK unitary board. The EEC's proposals in the Fifth Directive would destroy this unity whether the board has one tier or two. Perhaps it would be enough if the independent directors were given particular responsibility for: vet nominations for independent, but not executive, directors; fix the executive directors' remuneration; and discuss with

the auditors the scope and content of the audit.

Such a role would ensure they were able to participate fully in the affairs of the company and give them the status which would ensure an adequate flow of able recruits. PRO NED's experience is that there is no shortage of talent.

Such reforms are hardly revolutionary and are more or less standard practice in the U.S. In quieter times the UK might have gone down the American road where the New York Stock Exchange some years ago made it a precondition of quotation that the company should have an audit committee composed of independent directors, but this is hardly a propitious time to expect our own Stock Exchange to take a major initiative in this area when it has so many other immediate pressures to contend with. Besides, the UK does not have a Securities and Exchange Commission to require companies by requiring them to show certain information about company boards.

Legislation rightly has few friends, for imposition is a policy of last resort. So the only course that seems open is to continue on the present path with greater encouragement or pressure from shareholders, which effectively means institutional shareholders and, where appropriate, banks. On present form this will produce results, but slowly and patchily.

From everything I have seen at PRO NED in three hectic years, studied with many hundreds of interviews, there is a great gulf between our best companies (not all big by any means) which such changes might leave almost untouched, and the rest. It is not easy to see how the right prescription should be. We need a general debate on what changes are desirable and how they can best be achieved on a reasonable time scale.

\*Published in the latest Quarterly Bulletin, available from Bulletin Group, Bank of England, Threadneedle Street, London EC2R 8AH. Price £7.50. Jonathan Charkham is director of PRO NED (Promotion of non-executive directors).

## TECHNOLOGY

EDITED BY ALAN CANE

## Collaboration: the name of the game in U.S. research

The cost of staying ahead is leading more companies into sharing research. Peter Marsh reports (below) on links with universities and (right) on a research club

ROBOTS THAT can walk, clean houses and sniff the air for traces of dangerous chemicals are under development at a robotics centre at Carnegie-Mellon University in Pittsburgh funded by some of the giants of American industry.

The centre, with an annual budget of \$1m, is one of a series of collaborative ventures with industry at the university. Other centres started in recent years at Carnegie-Mellon in areas such as magnetic technology, semiconductor research and biochemistry.

Among the companies footing the lion's share of the bill for these establishments are Westinghouse, DEC, Rockwell, Allegheny International, the Borg Warner subsidiary, of Philips, SM Control Data, IBM and Hewlett-Packard.

These companies fund roughly a quarter of Carnegie-Mellon's \$85-a-year research budget, with the rest coming from government.

The Pittsburgh ventures are one sign of the growing interest

in the U.S. in linking research by academic institutes and that done by companies, particularly in information technology.

Universities are keen to foster such connections because it brings them extra cash to fund increasingly expensive research. For their part, companies are becoming more aware that academic research can help in developing new products and processes.

According to a report on information technology research in the U.S. from the Office of Technology Assessment, an agency of Congress, university research is on the threshold of significant change.

It says universities may be seen as critical to U.S. competitiveness in domestic and world markets. To its ability to maintain technical prominence and to remaining self-sufficient in critical areas for national security purposes.

The report shows companies are stepping up efforts to fund universities, not only for specific research projects but through donations of equipment. Among the major contributions of cash and equipment are IBM, DEC, Apple Computer, Hewlett-Packard, Wang Laboratories, NCR and Honeywell.

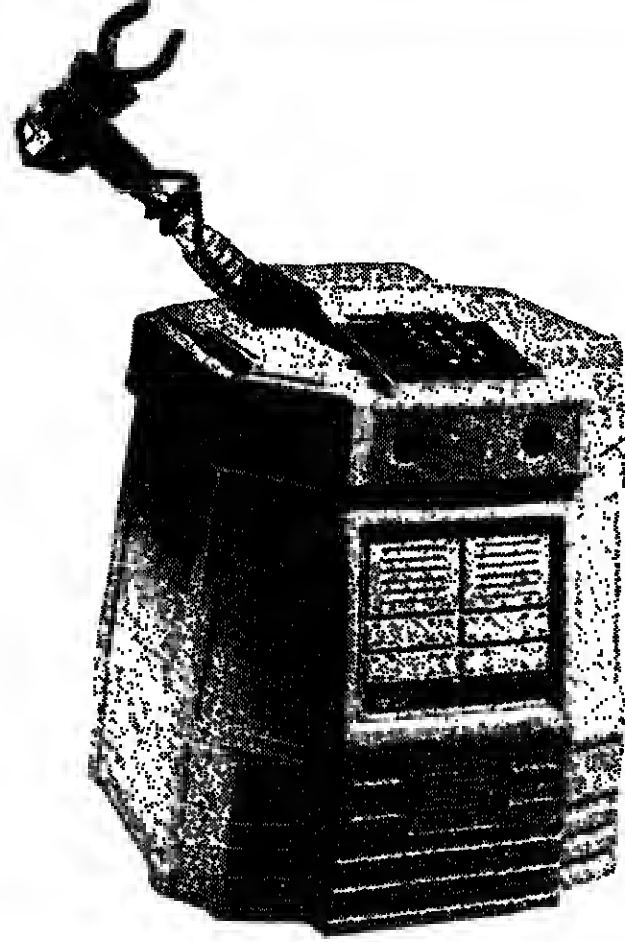
As one example, Brown University in Providence, Rhode Island, built a \$1.5m computer science laboratory based on contributions from companies such as IBM, Xerox and Gould.

The University of California at Berkeley has promises of \$15m in money and hardware from leading electronics companies including Fairchild, Advanced Micro Devices, DEC, General Electric, Hughes Aircraft, Intel, Tektronix, Texas Instruments and Xerox.

What motivates these companies to increase their ties with academia? The answer, says the report, is the need to share the increasing cost of research and development. Universities, meanwhile, lack resources from state-administered research budgets and are eager to take up offers of extra money.

Says the report: "The rapid obsolescence of laboratory and research tools, coupled with the highly complex and sophisticated nature of the equipment now needed for advanced information technology research, results in capital costs beyond the reach of most academic institutions." Not unexpectedly, universities have had to seek new ways to operate educational and research programmes.

Local government agencies keen to attract investment in university facilities from high-technology companies in order to boost the local economy have also helped fund academic research. But the report identifies disadvantages with the new arrangements. It says universities can be drawn away from



Shared research is helping to develop robots that can do household. The Heath robot, used for training, has so far mastered singling and telling the time.

areas of fundamental study and concentrate resources on problems that affect short term business interests.

Industry could also insist that research is done in secret to protect commercial rights. This would interfere with academic traditions over publishing scientific results.

Another danger is that the

new, exciting and highly visible ventures between academia and industry will divert faculty staff from other important areas such as teaching and recruiting students.

Information Technology R and D—Critical Trends and Issues; Office of Technology Assessment; U.S. Government Printing Office, Washington, DC.

## First benefits of clubbing together

A CLUB of some of the biggest U.S. electronics companies expects next year to see the first commercial results from an unusual experiment in collaborative research.

The research at the Micro-electronics and Computer Technology Corporation (MCC) is likely to be used in areas such as semiconductor production software, engineering and computers, with artificial intelligence that can operate with reasoning powers approaching those of humans.

The corporation, which is based in Austin, Texas, and employs 330 people, is a joint venture between 21 U.S. companies. Each pays a share of the \$50m-to-\$60m-a-year costs.

In return, the participating companies will have the right to use expertise developed at the corporation.

The founding members of the organisation, which started in January 1984, were Advanced Micro Devices, Control Data, DEC, Harris, Honeywell, Motorola, National Semiconductor, NCR, Sperry and RCA.

These companies were later joined by Allied Corporation, Bell Communications Research, BMC Industries, Boeing, Kodak, Gould, Lockheed, Martin Marietta, SM, Mostek and Rockwell.

The corporation has now decided upon seven projects of basic research, each of which is funded by several club members. The projects encompass semiconductor design, software technology, chip packaging, parallel processing (new computers which process parallel trains of data rather than one instruction at a time), artificial intelligence, the design of new data bases and ways to make it easier to communicate with computers, for instance by speech.

Commercial rights over technologies developed during the programmes, for instance a new method to package semiconductors in plastic arrays or a novel piece of software, belong to the MCC.

At any time during the life of an individual project (which can be up to 10 years), the companies can decide that a specific technology could be used in a commercial activity and take out a licence for its exploitation from the corporation.

Under MCC's rules, any member that has helped to fund a particular programme can license a specific technology arising from the programme up to three years after it has been developed. After this point, any of the MCC's other members are also free to exploit the innovation.

Outsiders which have nothing to do with MCC can also take out licences—but only if the companies in the corporation agree.

Through these mechanisms, the companies in the group hope they will share the costs of doing basic research yet be free to tackle individually commercial exploitation of technical breakthroughs.

The idea of pooling ideas in pre-competitive research is at the heart of the British Government's Alvey programme in advanced computing. In projects funded by this scheme, the government provides 50 per cent of the cash. Rights to technical ideas, rather than passing into the ownership of a single body, are held by the individual companies participating in the programmes.

Mr Bill Strotzberg, director of public affairs at MCC, says the corporation aims to hand out its first technology licence next year. Whether companies pursue collaborative arrangements in taking technical ideas from the MCC research to the commercial stage will be left to them.

The U.S. and-trust laws may, however, preclude the corporation's members from extending their co-operation into joint product design or marketing.

The MCC next year is due to move into a new building rented from the University of Texas. Part of the corporation's strategy is to formulate close links with people in the university's engineering departments, some of whom work part-time for the research club.

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## Who's partnering whom in the R and D stakes

THESE ARE some of the U.S. companies collaborating with the Micro-electronics and Computer Technology Corporation (MCC) to work on new techniques in the design and production of semiconductors. Companies with a share in the projects include DEC, General Motors, United Technologies, GTE, Harris, Raytheon and IBM. Companies contribute up to \$250,000 a year.

Massachusetts Institute of Technology has set up a Micro-electronics and Computer Technology Corporation (MCC) to work on new techniques in the design and production of semiconductors. Companies with a share in the projects include DEC, General Motors, United Technologies, GTE, Harris, Raytheon and IBM. Companies contribute up to \$250,000 a year.

A group of Minnesota-based industries, including Control Data, SM, Honeywell and Sperry, committed \$6m to launch the Micro-electronics and Computer Technology Corporation (MCC) at the University of Minnesota. The state of Minnesota put up a further \$1.2m. The projects include artificial intelligence, electronic research and computer-aided design.

Micro-electronic Centre of North Carolina was set up with \$43m from the state of North Carolina and is intended to act as a bridge between academic researchers and electronics companies. Institutes collaborating in the venture include Duke University, North Carolina State University, and North Carolina A and T State University.

The state of Pennsylvania set up four advanced technology centres at Pennsylvania State University, Lehigh University in Bethlehem, at Pittsburgh (run jointly by Carnegie Mellon University) and Philadelphia (operated by Drexel University and the University of Pennsylvania). Each centre has a budget of about \$m a year.

**White Horse**

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## Automated labelling made easy

AN EASY and versatile method of labelling plastic containers on an assembly line has been developed in the UK by Automated Packaging Systems of Lebury.

A tube-like roll of perforated polyethylene sleeves is slid over the container, and the sleeve is then mechanically separated from the roll, and it contracts, gripping the bottle.

This method has several advantages over conventional paper-labelling and plastic shrink-wrapping. No adhesive or heat is required to attach the sleeve to the container, and the polyethylene is resistant to moisture and chemicals. And as this method is simpler, the labelling stations can accommodate several container sizes and frequent label changes.

Graphics on the labels can be produced using high-quality offset gravure printing or economical xerographic printing.

This type of labelling has already been used in the U.S. where Automated Packaging Systems of Twinsburg, Ohio, introduced it.

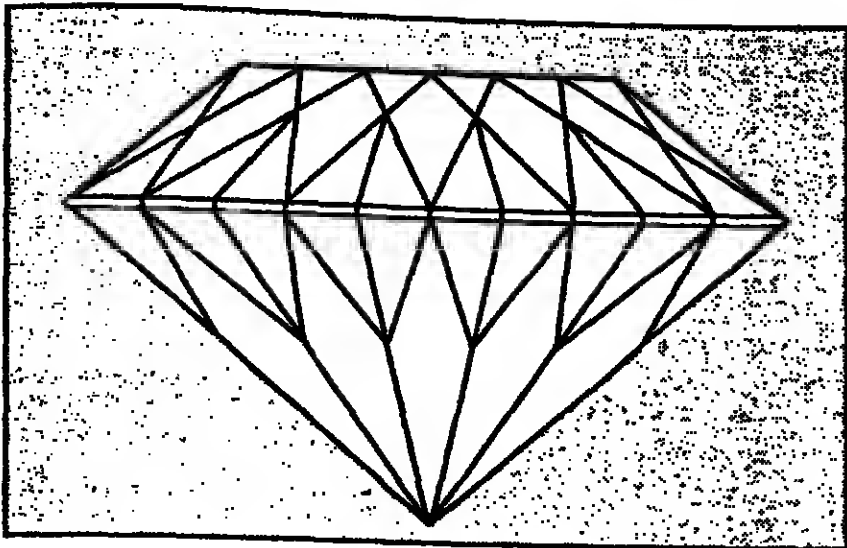
## Remote control mining valve

MINING engineers who need remote controls for gas extraction or water operation can now use a new device from Rotek Controls of Bath.

The company has introduced an electric valve actuator that has been accepted by the National Coal Board for underground use with remote control options. It is also computer compatible.

The actuator can be used to control directly gas or water valves, or work in conjunction with a gasbox. It is housed in a dunn, making it reliable under wet, dusty or other harmful working conditions.





Copies of this prospectus, having attached thereto the documents specified herein, have been delivered to the Registrar of Companies for registration.

This prospectus includes particulars given in compliance with the Regulations of the Council of The Stock Exchange for the purpose of giving information with regard to Sapphire Petroleum P.L.C. ("the Company"). The Directors of the Company have taken all reasonable care to ensure that the facts stated herein are true and accurate in all material respects and that there are no other material facts the omission of which would make misleading any statement herein whether of fact or of opinion. All the Directors accept responsibility accordingly.

Application will be made to the Council of The Stock Exchange for the grant of permission to deal in the Ordinary Shares capital of the Company in the Unlisted Securities Market. It is emphasised that no application has been made for these securities to be admitted to listing. It is expected that dealings will commence on 9th July, 1985.

# Sapphire Petroleum P.L.C.

by

Williams de Broe Hill Chaplin & Company Limited

of 6,000,000 Ordinary Shares of 50p each at 150p per share, payable in full on application

The application lists will open at 10.00 a.m. on 2nd July, 1985 and may be closed at any time thereafter. The procedure for application and an application form is set out at the end of this prospectus.

## Directors, Secretary and Professional Advisers

### Directors

John Dudley Webster, (Chairman),  
10, Merrydown Way, Chislehurst, Kent, BR7 5RS.  
Alfred William Fraser Wright, (Managing Director),  
13, Cheyne Gardens, London, SW3 5QT.  
Peter Pollard, (Technical Director),  
Becket House, 4, Pilgrims Way, Guildford, Surrey, GU4 8AB.  
John Lee Taylor Jnr., (US),  
1725 One Dallas Centre LB-10, Dallas, Texas 75201, USA.  
Mark Ian Henderson, (non-executive),  
39, Winham Grove, London, SW11 6NB.  
William E. Johnson III, (US), (non-executive),  
1725 One Dallas Centre LB-10, Dallas, Texas 75201, USA.  
Richard Henry Ringrose Latham, (non-executive),  
Stowling Hill House, Ashford, Kent, TN25 6BE.  
Sam Stevenson Jnr., (non-executive),  
149, Pavilion Road, London, SW1X 0BJ.

### Secretary and Registered Office

David John Heigham, C.A.,  
Pinners Hall, Austin Friars, London, EC2P 2HS.

### Office of US Subsidiaries

1725 One Dallas Centre LB-10,  
Dallas, Texas 75201, USA.

### Stockbrokers

Williams de Broe Hill Chaplin & Company Limited,  
P.O. Box 515, Pinners Hall, Austin Friars, London, EC2P 2HS.

### Reporting Petroleum Consultants

H. J. Gruy and Associates, Inc.,  
150 West John W. Carpenter Freeway, Irving, Texas 75062, USA.  
Jerry R. Bergeson & Associates, Inc.,  
4991 Independence Street, Suite 270, Wheat Ridge, Colorado 80033, USA.

### Solicitors to Sapphire and to the Offer for Sale

McKenna & Co.,  
Inveresk House, 1, Aldwych, London, WC2R 0HF.

### Auditors and Reporting Accountants

Arthur Andersen & Co.,  
Chartered Accountants, 1, Surrey Street, London, WC2R 2PS.

### Bankers

Bank of Scotland,  
P.O. Box 10, 38, St. Andrew Square, Edinburgh, EH2 2YR.  
Republic Bank, Dallas, N.A.,  
P.O. Box 75450, Dallas, Texas 75285, USA.

### US Legal Advisers

Jones, Day, Reavis and Pogue,  
2300 LTV Centre, 2001 Ross Avenue, P.O. Box 660823, Dallas, Texas 75266, USA.

### Receiving Bankers

National Westminster Bank PLC,  
New Issues Department,  
P.O. Box 79, 2, Princes Street, London, EC2P 2BD.

### Registrars

National Westminster Bank PLC,  
Registrar's Department,  
P.O. Box 82, 37 Broad Street, Bristol, BS99 7NH.

## Definitions

|                           |  |
|---------------------------|--|
| Sapphire                  | Sapphire Petroleum P.L.C. or, where the context admits, the Sapphire Group |
| SPIL                      | Sapphire Petroleum Investments Limited                                     |
| SPH                       | Sapphire Petroleum Holdings, Inc.  |
| SPV                       | Sapphire Petroleum Ventures, Inc.  |
| SEP                       | Sapphire Exploration & Production, Inc.                                    |
| JMGL                      | JMGL, Inc.   |
| Subsidiaries              | All of the above companies, apart from Sapphire                            |
| US Subsidiaries           | SPH, SPV, SEP and JMGL   |
| JOC                       | Johnson Oil Company  |
| Sapphire Group - Group    | Sapphire, the Subsidiaries and JOC   |
| Directors                 | The Directors of Sapphire  |
| Dyne                      | Dyne Exploration Company   |
| Whitmar                   | Whitmar Exploration Company  |
| Murexco                   | Murexco Petroleum, Inc.  |
| Chaparral                 | Chaparral Resources, Inc.  |
| Bergeson                  | Jerry R. Bergeson & Associates, Inc.                                       |
| Gruy                      | H. J. Gruy & Associates, Inc.  |
| The Petroleum Consultants | Bergeson and Gruy  |
| Willbro                   | Willbro Oil Limited  |
| Williams de Broe          | Williams de Broe Hill Chaplin & Company Limited                            |
| \$                        | Dollars of the United States of America                                    |

## Share Capital

| Authorised  | Issued and now being offered for sale, fully paid or credited as fully paid |
|-------------|---|
| £15,000,000 | in Ordinary Shares of 50p each £10,630,563                                  |

The Ordinary Shares now being offered for sale will rank in full for all dividends hereafter declared or paid on the Ordinary Share capital of the Company.

## Indebtedness

At 12th June, 1985 the Company and its subsidiaries had a secured medium term loan facility of \$3,550,000 (£2,800,789), of which \$2,964,847 (£2,338,972) had been utilised by that date.

Save as aforesaid, and apart from intra-group indebtedness, on 12th June, 1985 neither the Company nor any of its subsidiaries had any loan capital (including term loans) outstanding or created but unissued or other borrowings or indebtedness in the nature of borrowings, including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase commitments, guarantees or other material contingent liabilities (other than in the ordinary course of business), nor at that date did any such company have outstanding any mortgages or charges.

For the purposes of these paragraphs dollar amounts have been translated to Sterling at the rate of \$1.2675 to £1 being the rate prevailing as at the close of business on 12th June, 1985.

## Summary of Information and Offer for Sale Statistics

The following information should be read in conjunction with the full text of the prospectus from which it has been extracted.

### Petroleum Consultants' Reports

The Petroleum Consultants' Reports show estimated future net revenues and present lease values attributable to Sapphire as follows:

|                      | Oil<br>(Barrels '000) | Gas<br>(MMCF) | Estimated Future Net Revenues |                               |
|----------------------|-----------------------|---------------|-------------------------------|-------------------------------|
|                      |                       |               | Not Discounted<br>(\$'000)    | Discounted at 10%<br>(\$'000) |
| Proved               | 464                   | 4,042         | 15,940                        | 11,092                        |
| Probable             | 223                   | 1,666         | 5,222                         | 2,503                         |
| Possible             | 176                   | 3,631         | 11,116                        | 6,158                         |
|                      | 863                   | 9,339         | 32,278                        | 19,753                        |
| Leases (exploratory) | 113,605 net acres.    |               | Value \$3,582,000             |                               |

### Bergeson (South Madden only)

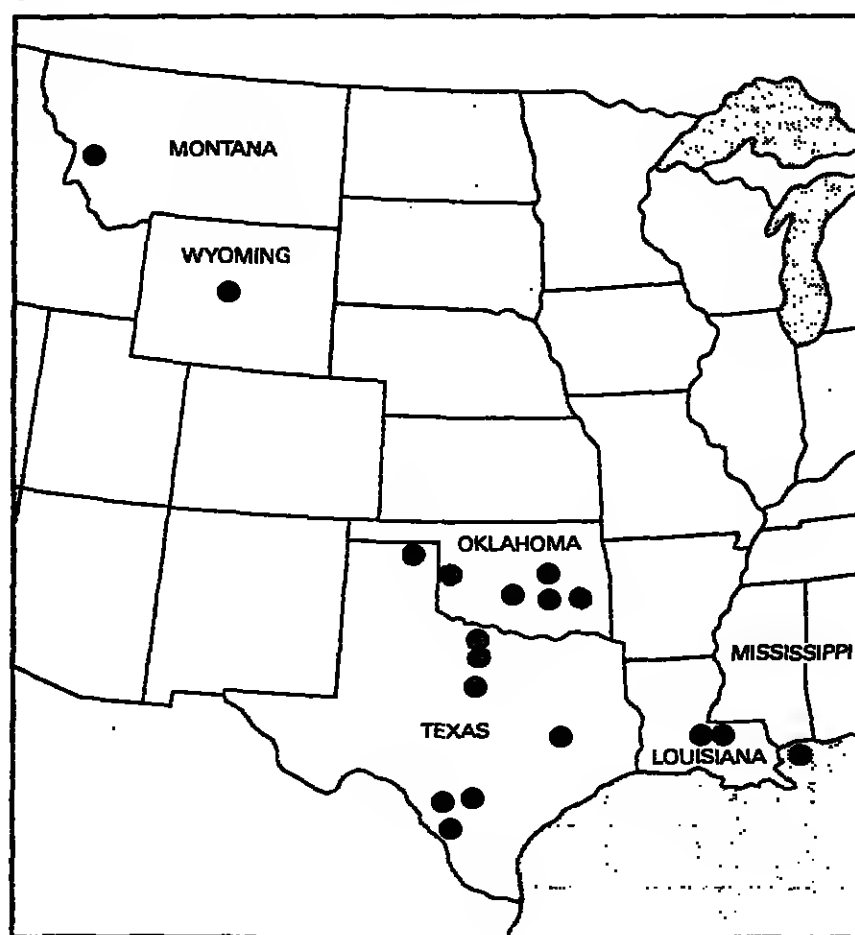
|                 | Oil<br>(Barrels '000) | Gas<br>(MMCF) | Estimated Future Net Revenues |                               |
|-----------------|-----------------------|---------------|-------------------------------|-------------------------------|
|                 |                       |               | Not Discounted<br>(\$'000)    | Discounted at 10%<br>(\$'000) |
| Case A†         | 594                   | 14,856        | 45,080                        | 14,477                        |
| Case B†         | 828                   | 20,692        | 68,561                        | 23,017                        |
| † See Section 8 |                       |               |                               |                               |

Net Assets Per Share\* 190p - 235p  
\* This range is based on the valuations contained in the reports prepared by the Petroleum Consultants the letters from whom are set out in Sections 5 and 6, and takes no account of the shares now being offered for sale or of the proceeds of the Offer for Sale.

## Offer for Sale Statistics

|   |                |
|---|----------------|
| Offer for Sale price  | 150p           |
| Market Capitalisation at the Offer for Sale price   | £31.9m.        |
| Estimated Net Proceeds of the Offer for Sale  | £8m.           |
| Percentage of the share capital, following the Offer for Sale, now being offered for sale.  | 28.2 per cent. |
| Application of Net Proceeds   |                |
| The net proceeds of the Offer for Sale, together with Sapphire's income, will be applied principally as follows in the period to 31st December, 1986: |                |
| South Madden field - balance of acquisition, appraisal and development  | (\$'000) 4,450 |
| Development of existing properties  | 6,013          |
| Exploration   | 2,734          |
|   | 13,197         |

## LOCATION OF SAPPHERE'S PRINCIPAL PROPERTIES



## Section 1

### Introduction

Sapphire was incorporated in April, 1981 to provide investors with access to a broad spread of US oil and gas exploration and production opportunities on terms as close as possible to those available to operating oil companies. Sapphire has properties in Colorado, Louisiana, Mississippi, Montana, Oklahoma, Texas and Wyoming. As a result of a period of successful exploration, Sapphire has begun the appraisal and development of 16 fields or field extensions which have been discovered since June 1983. In addition, Sapphire will continue to pursue an active programme of exploration, whilst continuing its policy of maintaining a balanced range of prospects.

Sapphire has shown that it is capable of selecting prospects which lead to the discovery and development of significant reserves of oil and gas, and the Directors believe that the following factors place Sapphire in a strong position:

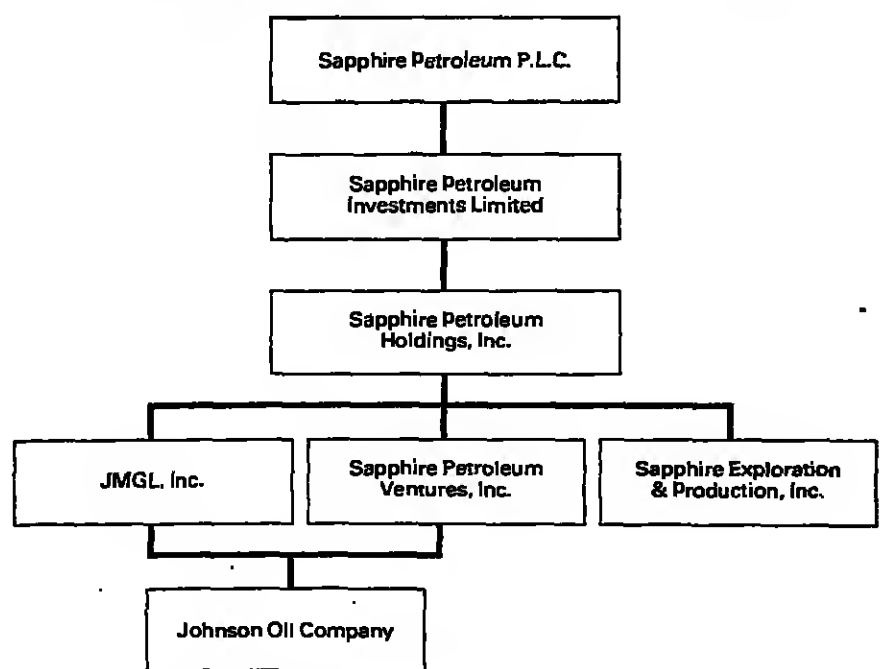
- It has interests in 113 producing wells as a result of activities to date.
- It has approximately 114,000 net acres of exploratory leases.
- It has been involved in the discovery of sixteen fields or field extensions which are now entering their development stage.
- It is a geographically and risk balanced company.
- It will have a significant cash flow from reserves which it is advised have a long life.
- It intends to invest approximately \$9m by the end of 1986 on appraisal and development.
- It intends to continue to explore with a limited number of successful operators as an active financial partner on competitive terms.
- It will continue its policy of investing approximately 10% of cashflow in low cost, high risk/reward exploration.

## History and Group Structure

Following Sapphire's formation in April, 1981 approximately £10.01m was raised in June, 1981 by an issue of shares to certain UK institutions and a small number of private individuals. Following a rights issue in June, 1983, a further sum of approximately £3 million was raised. These sums, net of expenses, were invested by SPH on then normal industry terms. The greater part of SPH's investments to date has been made through JOC, a Texas general partnership now wholly owned by the Group.

In addition to those projects in which Sapphire invests through JOC, which primarily comprise low and medium risk ventures, Sapphire has made a number of investments through SEP, which will continue to be used for specialised or high risk/reward investments such as those described below.

A diagram showing the present structure of the Group is shown below.



Since its inception, Sapphire has participated with 21 different operators. In the drilling of 274 wells, 132 of which were completed as producers. In the last two years, Sapphire has chosen to concentrate on the operators with whom it has been most successful and intends principally to invest with only four of the twelve operators with whom it presently participates.

In 1984, Sapphire expended \$12m and participated in the drilling of 67 wells, 46 of which were completed as producers. The Directors believe that there will be a considerable increase in reserves when development of the fields improves the data presently available to the Petroleum Consultants.

## Company Policy and Business

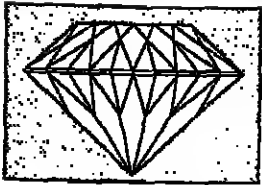
Sapphire's initial investment philosophy was to participate with a number of oil and gas companies, in suitable programmes devised by those companies in order to secure a prudent spread of risk and geographical location.

In view of market conditions which have changed to the benefit of investors and of Sapphire's development since its formation, Sapphire is now able to select for investment those particular projects which it regards as the most suitable, having applied its own expert risk evaluation techniques. Active participation in ensuring development enables Sapphire to control its capital expenditure in such a way as to maximise revenue and optimise existing reserves.

In addition to identifying and investing in oil and gas prospects, Sapphire proposes to spend approximately \$6.0m in the period from the date of this prospectus to the end of 1986 the development of discoveries already made on its properties following successful exploration. Sapphire will also commence development on the South Madden Field in Wyoming jointly with Chaparral in July 1985, as described below.

At the same time as pursuing a long term development programme, Sapphire will continue low and medium risk exploration activity and will continue to respond to new approaches it receives from operators. Furthermore, approximately 10% of Sapphire's cash flow will be committed to wildcat drilling of a low cost, high risk/reward nature on new properties (see below).





# Sapphire Petroleum P.L.C.

## Directors

The Directors of Sapphire are as follows:

### J. D. Webster

Mr. Webster is 45, and is a Fellow of the Institute of Actuaries. He has been employed by Sun Life Assurance Society PLC for 23 years of which he has been an executive director since 1978. He is also a director of two investment trust companies and recently was appointed a lay member of the Council of The Stock Exchange. Mr. Webster became a Director on 10th June, 1981.

### A. W. F. Wright

Mr. Wright is 48, and is a Member of the Institute of Chartered Accountants of Scotland. He is a Member of The Stock Exchange and a director of Williams de Broe Hill Chaplin & Company Limited, Stockbrokers, with whom he has been associated for 18 years. He has been responsible for co-ordinating and implementing the policy of the Group since its inception and has recently been appointed Managing Director of Sapphire. Mr. Wright became a Director on 11th May, 1981.

### P. Pollard

Mr. Pollard is 61, and is a graduate in engineering. He worked for the Shell International Petroleum Group for 33 years, mainly in Venezuela, where he became Head of Reservoir Engineering and Integrated Economics. In 1971, he returned to London where he was a Senior Planning Analyst at the Shell Group Central Office and became Planning Manager for Shell UK (Exploration and Production) Limited in 1975. Since leaving the Shell group in 1978, he has been active in oil consulting work and is a director of an independent oil consulting company, Wetherall Edwards & Company, Limited. He has been Sapphire's Technical Director since its inception. Mr. Pollard became a Director on 11th May, 1981.

### J. L. Taylor Jr.

Mr. Taylor is 40, and is a graduate of Texas Tech University. He qualified as a certified public accountant with Price Waterhouse and prior to becoming a Director of Sapphire was employed as Treasurer and Controller of the Johnson Energy Companies in Dallas, Texas. Mr. Taylor is President and Chief Executive Officer of the US Subsidiaries in Dallas, and is responsible for their day to day management. Mr. Taylor became a Director on 12th June, 1985.

### M. L. Henderson

Mr. Henderson is 38, and is a graduate in business finance. Before joining Hill Samuel Asset Management Limited, with whom he has been associated for 7 years and of which he is a director, he was involved for four years in the chemical industry. He has been an Associate Member of the London Oil Analysts Group since 1980. Mr. Henderson became a Director on 13th May, 1985.

### W. E. Johnson III

Mr. Johnson is 41, and is a graduate of Princeton University. He is a partner in the law firm of Johnson, Johnson & Johnson of Dallas, Texas. He has considerable experience in the US oil and gas industry, having founded several oil and gas companies, for a number of which he has acted as General or Managing Partner. He has advised both US companies and foreign investors on the US taxation laws relating to oil and gas income. Mr. Johnson became a Director on 11th May, 1981.

### R. H. R. Latham

Mr. Latham is 42, and holds an MBA degree. He is the founder, Chairman, and Managing Director of Claremont Oil & Gas Limited, and is also a director of International Adante Resources Limited and McKinley Square, Allsopp Securities Limited, in connection with which he has been concerned with the structure, financing and management of several joint ventures between UK investors and North American oil companies. Mr. Latham became a Director on 2nd March, 1984.

### S. Stevenson Jr.

Mr. Stevenson is 52, and is a Member of the Institute of Chartered Accountants of Scotland. He is a director of C. S. Investments Limited, Investment Managers, a company which he helped to found in 1963, and before that was a Managing Director of Gertmore Investment Management Limited, with whom he was associated since its inception in 1968. Mr. Stevenson became a Director on 11th May, 1981.

## Management

SPP intends to appoint a petroleum engineer to its staff in Dallas, Texas, to assist Mr. P. Pollard in the appraisal of the work of operators. It is not intended to employ geological staff since this usually entails geographical and conceptual limitations inappropriate to a company with Sapphire's spread of interests. Consultants in each area and with expertise of each separate prospect have been and will be used when required. The whole range of industry opportunities can thus continue to be considered and Sapphire's flexibility maintained. Whilst it is intended that Sapphire on occasion might become operator of record on certain leases to maximise financial control, the day to day lease operations will be contracted out with independent petroleum management contractors.

Sapphire maintains its registered office in London where Mr. A. W. F. Wright and Mr. P. Pollard are based. The US Subsidiaries have a small office in Dallas where day to day control is vested in Mr. J. L. Taylor Jr., consequently overheads are kept to a minimum.

## Net Assets

In Section 4 there is set out a pro-forma consolidated balance sheet showing the net assets of Sapphire, on an historical cost basis, of £22,106,000, as adjusted for the estimated net proceeds of the Offer for Sale of £3m.

## Dividends

No dividends have been paid to date as Sapphire has been developing its activities and consolidating its growth. Following the Offer for Sale, it is the intention of the Directors that the present policy of prudent reinvestment of cash flow be continued, but that a first dividend be recommended in 1987 in respect of the year ending 31st December, 1986.

## Taxation

A summary of the principal taxation considerations as they affect Sapphire and its shareholders is set out in Section 5.

Any potential investor who is in doubt about his tax position should consult his own professional adviser.

## Risk Factors

Oil and gas exploration and development is a speculative activity which involves a high degree of financial risk. The following are the principal risk factors which should be taken into account in assessing an investment in Sapphire:

- the reservoir from which Sapphire's oil and gas reserves are presently being or are expected to be produced may not conform to expectations, with the result that the volume of reserves recovered and the rates of production may be less than anticipated;
- drilling for oil and gas involves substantial risk of investment loss. The investment risk involves not only the possibility of drilling dry wells but also the possibility of drilling wells which result in the discovery of oil or gas but do not lead to production in commercial quantities;
- movements in the market price or marketability of oil and gas or changes in taxation or other governmental action may result in the income received by Sapphire being adversely affected; and
- the US Subsidiaries may become subject to liabilities for hazards which cannot be insured against, or against which they may elect not to insure because of prohibitive premium costs or other reasons, and may have liabilities to third parties (in excess of any insurance cover) arising from pollution or other damage or injury.

## Petroleum Consultants

In connection with the Offer for Sale, Sapphire has obtained independent appraisals of the net reserves and net revenue attributable to Sapphire's producing properties and the locations in which Sapphire intends to carry out development and exploratory drilling. Gruy has reported on all Sapphire's interests as at 1st April, 1985. Sapphire has also obtained a report from Bortson in connection with the South Madden field which is mentioned below and consequently has purchased an interest in that field. The Directors have received letters, which are set out in Sections 5 and 6, from the Petroleum Consultants reporting on these interests.

## Proceeds of the Offer for Sale

The proceeds of the Offer for Sale net of expenses are estimated to amount to £3m. These proceeds, together with Sapphire's income from its oil and gas interests, will be applied principally as follows in the period to 31st December, 1986:

|   | (\$'000)      |
|---|---------------|
| South Madden field - balance of acquisition payment | 1,250         |
| Appraisal and Development - South Madden field      | 3,200         |
| Development of existing properties                  | 6,013         |
| Exploration   | 2,734         |
|   | <u>13,197</u> |

## The Future

Sapphire has a balanced profile of production, a large number of fields with significant acreage awaiting development and prospects for new exploratory drilling. The successful development of these prospects is expected to contribute significantly to Sapphire's future profitability and to add considerably to reserves.

Sapphire's agreement with Chaparral to appraise and develop their large gas interests in the South Madden field should also help to secure the long-term future of Sapphire. The report prepared by Bortson envisages the drilling of 54 wells between 1985 and 1993. This report also shows that revenue, net of all costs including capital, will rise steadily to a peak in 1993 and then decline slowly over a period exceeding the next 20 years.

Sapphire's close association with three other exploration companies of proven record, with whom it invests on very competitive terms, lead the Directors to believe that the momentum built up over the last few years will continue.

The Directors also believe Sapphire will continue to be offered and to participate in high risk reward projects. This, combined with stability of production and long life reserves, should enable Sapphire to continue its growth. In addition, opportunities for further acquisitions exist and Sapphire's experience and reputation place it in an excellent position.

## Section 2

### Production

Sapphire has interests with twelve operators in 113 wells from which it expects to derive an income of \$2.98m in 1985 and \$3.45m (out of the projected total of \$6.85m shown in Section 8) in 1986 before taking account of revenue resulting from the appraisal and development of the properties discussed below. These estimates are based on average prices of \$26.70 per barrel of oil and \$2.46 per MCF of gas.

### Appraisal and Development

Sapphire's appraisal and development expenditure will be principally concentrated on the three operators with whom it has enjoyed the greatest success, and with Chaparral with whom it has recently entered into an agreement.

Sapphire intends to spend approximately \$5.5m in participating in the drilling of up to 77 wells with Murexco, Whitmar and Dyna in the period from the date of this prospectus to the end of 1986 and a further \$0.5m with other operators. The Directors believe that this will prove up a significant proportion of the net probable and possible reserves currently attributed by Gruy.

The development of the Wyoming properties with Chaparral at an initial cost of up to \$3.2m should start to prove up the potential reserves which are estimated by Bortson to have a net present value of at least \$14.47m.

A brief description of each of these four operators and the principal properties in which Sapphire has interests are given below.

### Murexco Petroleum, Inc.

Murexco was formed in 1981 as a privately owned independent exploration and production company whose principal shareholders are management and institutions. The company explores mainly in Louisiana, Oklahoma and Texas.

Sapphire commenced operations with Murexco in 1983 and to date 38 wells have been drilled, of which 21 have been completed as producers. In 1984 eight fields were discovered which will now be developed. Potentially the largest, Bayou Tommy, was an extension of the 1983 Poydras discovery both of which are described below.

In addition to these 2 fields, Sapphire intends to develop a further 8 properties. Sapphire also intends to continue drilling selected exploratory properties with this operator.

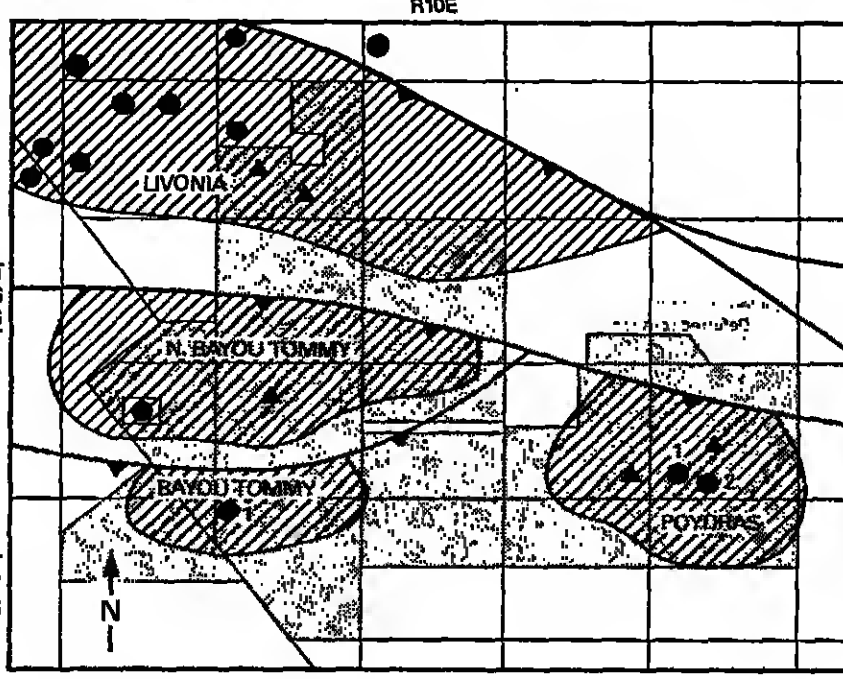
#### Poydras and Bayou Tommy

*History, Size and Location*  
Poydras and Bayou Tommy comprise a block of leases totalling 2,116 and 4,713 acres respectively in West Baton Rouge and Pointe Coupee Parishes, Louisiana. Poydras, the eastern block, is operated by Reese Oil & Gas, Ltd. and in 1983 Sapphire, through Murexco, took a 10.9% working interest in the first well before payout, reducing thereafter to an 8.9% interest. Bayou Tommy, the western block, is operated by Murexco, and Sapphire took a 16.95% working interest in 1984 in the Laws No. 1 well. Sapphire is entitled to a similar interest in all further wells on this lease. A major US oil company has interest in leases immediately east and south of this acreage on which it is presently testing one well and drilling two others.

*Geology and Exploratory Drilling*  
The Bayou Tommy and Poydras fields are on adjacent structures of one large geological feature approximately 5 miles long and 1½ miles wide. It lies about 4½ miles east of the Frioche field, which is structurally and stratigraphically similar and which has produced over 22 million barrels of oil and 508 MCF of gas from multiple sands in the Wilcox formation of Eocene age.

On Poydras, Sapphire participated in the Intracoastal No. 1 discovery well in 1983 and a first development well, the Intracoastal No. 2, in 1984. Both wells encountered three Wilcox zones and a shallower Frio sand at about 8,600'; all logged as productive. The Intracoastal No. 1 was completed in the lowermost Wilcox zone and after initial production of 285 barrels of oil per day in May 1983, production stabilised at approximately 120 barrels per day. The Intracoastal No. 2 was completed in the middle Wilcox zone to provide wider reservoir appraisal data. This well tested 480 barrels of oil per day with 800 MCF of gas per day and is presently closed in and awaiting a geologic connection which is being expedited.

On Bayou Tommy, Sapphire participated in the drilling of the recent test well, the Laws No. 1, drilled to a depth of 13,525'. Tests are being carried out to determine whether the well is capable of commercial production.



**LEGEND**  
 SAPHIRE LEASES  
 APPRAISAL WELL LOCATION  
 OIL WELL  
 APPROXIMATE OILFIELD AREAS  
 mile  
 GEOLOGICAL FAULT  
 UP  
 DOWN

*Development*  
The Bayou Tommy block comprises three sub-structures separated by major faults. These are Bayou Tommy, North Bayou Tommy and Livonia. The last named is an extension of the Livonia field to the northwest which produces from the Wilcox, Cockfield and Frio formations. Cumulative production from the Livonia field is over 6.7 million barrels of oil.

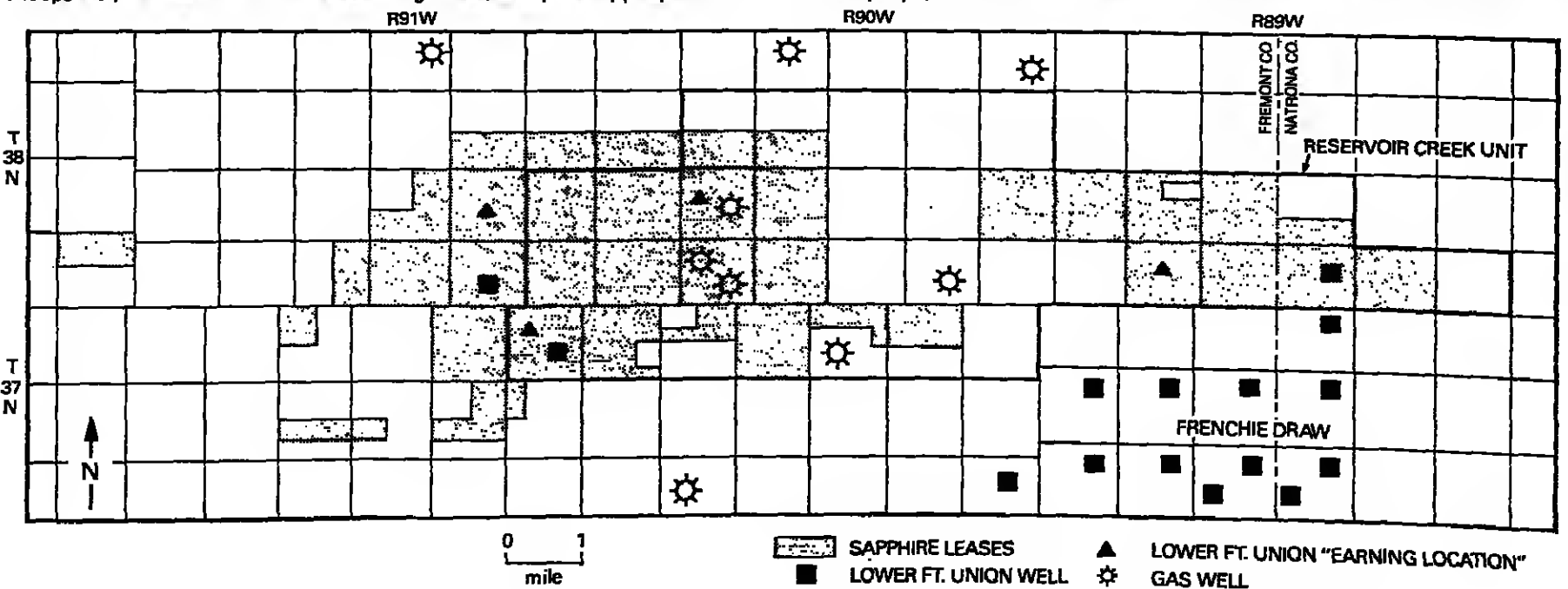
The immediate programme in the Bayou Tommy/Poydras area is aimed at developing reserves in Livonia, establishing production in Bayou Tommy and North Bayou Tommy, and developing Poydras in both the Wilcox and Frio formations. Successful appraisal of this area could lead to 30 to 40 productive wells.

*Reserves*  
Due to the immaturity of the data available, Gruy has indicated that the total reserves attributable to Sapphire in the Poydras and Bayou Tommy fields are 180,000 barrels of oil and 80 MCF of gas. However, in view of the multiple pay sands present, the extensive prospective area still to be appraised, the performance of similar fields in the region and the advent of new improved well completion techniques, the Directors consider the potential of these fields to be very substantial.

### Whitmar Exploration Company

Whitmar is a private oil and gas company based in Tulsa whose primary areas of interest are the Arkoma and Anadarko basins of Oklahoma. During the past six years, Whitmar has drilled over 300 wells, and achieved an average 68% rate of success resulting in the discovery of reserves of 18.8 million barrels of oil and oil equivalent.

Since December, 1982 Sapphire has taken a working interest in 18 projects, generally of 12.5% of Whitmar's interests, which are usually between 50% and 100% of the total interest. Of these, 9 proved productive, 9 dry and 1 redrill is pending. Two of the six fields which it is intended to develop are described below. In view of the results obtained with this operator, it is intended to continue the drilling of selected exploratory prospects.



**LEGEND**  
 SAPHIRE LEASES  
 LOWER FT. UNION WELL  
 LOWER FT. UNION "EARNING LOCATION" GAS WELL  
 mile

*Bracken*  
Whitmar has interests in about 5,719 gross acres in the Bracken and West Bracken areas of Roger Mills County, Oklahoma. Three exploration wells in the Bracken area have been completed in 3 different formations: the Bartlesville, Skinner and Red Fork. The average initial gross production rate was 134 barrels of oil per day and 1,100 MCF of gas per well.

The prospect consists of multi-zone stratigraphic traps in Pennsylvanian formations. The Red Fork and Oswego Line are prolific producing formations in the area, with Red Fork wells in the South West Leedy field, 9 miles to the south, having estimated ultimate recoveries as high as 24 BCF of gas and 300,000 barrels of condensate per well. Oswego wells to the east of the prospect area have averaged over 100,000 barrels of oil per well.

Preparations are in hand to drill a Skinner offset in Bracken which will also test the Red Fork formation, to be followed by 2 Red Fork wells, and in West Bracken an Oswego well is being prepared. Additionally, at least 4 wells are foreseen in central Bracken and 5 more development wells in West Bracken.

#### Coalgate

Whitmar owns 1,319 net acres in the Coalgate prospect of Coal County, Oklahoma. The first well has just been drilled to 11,762' and has logged gas bearing sands in 6 different formations. This well is now being prepared for testing. Strong gas shows were encountered during drilling, particularly in the Viola formation from which an offset well produced 4 MMCF of gas per day on test.

The Viola reservoir has structurally oriented fractures induced by the major regional Choctaw fault system, and the Atoka stratigraphic traps are lenticular marine bars which are excellent reservoirs when found.

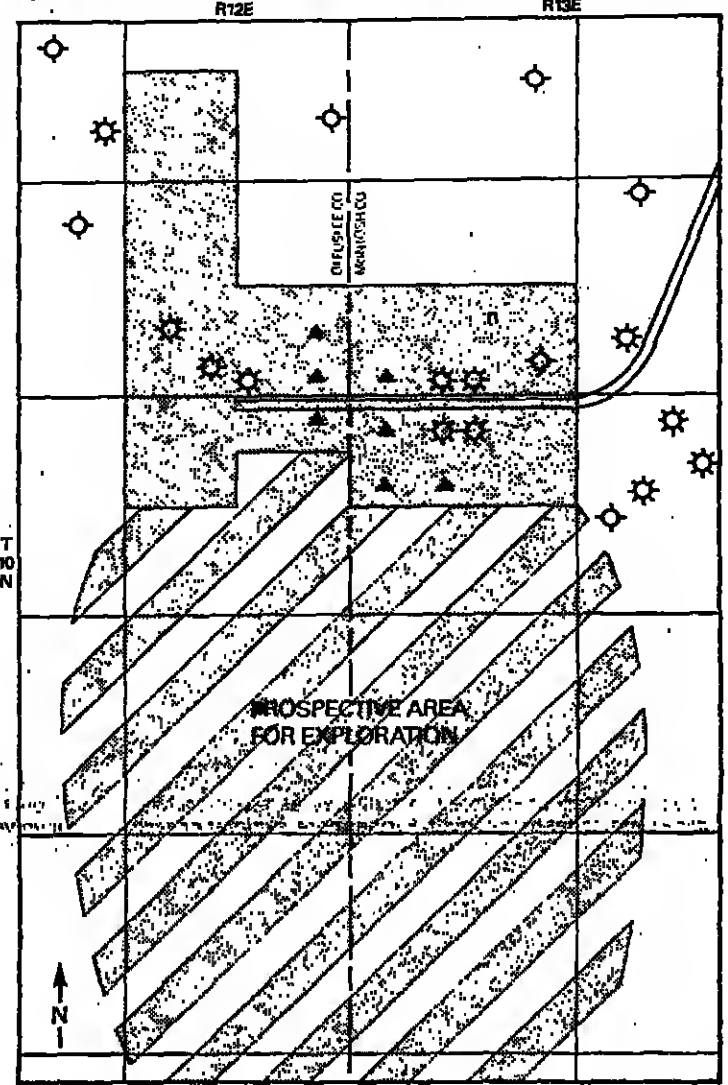
Up to 8 development wells are foreseen on this acreage, the main reservoirs being the deep Viola with potential initial production of 4 MMCF of gas per day per well and the shallower Atoka with 0.5 MMCF of gas per day per well.

### Dyne Exploration Company

Dyne is a small privately owned company operating exclusively in eastern Oklahoma, with whom Sapphire has been associated since 1981.

*Okluskee and McIntosh Counties*  
Sapphire holds a 25% working interest in a 960 acre lease in Oklahoma County and a 20% working interest in a contiguous 640 acre block in McIntosh County. To date, 7 productive gas wells have been drilled on these leases; 2 in the Union Valley Lima at about 3,100' in the Lower Gilcrease sand at 2,900' and 4 in the Shallow Calvin sand at 800'. Initial flow rates for the Union Valley and Gilcrease wells average approximately 850 MCF of gas per day and for the Shallow Calvin sand 150 MCF of gas per day.

Prior to August 1984, the Oklahoma Natural Gas (DNG) pipeline system, about 3 miles distant, would not purchase gas from Sapphire's acreage because of oversupply. In October 1984, following changes in the interstate gas market ONG began transporting gas to interstate markets opening up such markets to producers previously limited to intrastate systems.



**LEGEND**  
 SAPHIRE LEASES  
 DEVELOPMENT LOCATION  
 GAS WELL  
 ABANDONED WELL  
 PROPOSED GASLINE  
 mile

Sapphire intends to enter into a 50/50 joint venture Agreement with Dyne to finance the construction and operation of a small pipeline gathering system to deliver gas to the ONG line. The pipeline will be owned and operated by a new joint venture between Dyne and Sapphire, which will make gas purchase agreements with individual working interest owners, including Sapphire, at the wellhead, and execute a master gas sales contract with the interstate pipeline gas buyer at the ONG tap.

A survey of the availability of gas sales contracts with interstate pipelines which interconnect with ONG, has shown that several significant markets exist for gas delivered to ONG at approximately \$2.30 per MCF of gas.

The project will cost Sapphire approximately \$225,000 and it will enable the five wells which are currently shut in to be opened up to market immediately on completion of the line. Sapphire intends to participate in the drilling of seven development wells (4 Calvin, 2 Lower Gilcrease and 1 Union Valley), which would be expected to raise the average daily gross throughput of the pipeline to 3 MMCF of gas. On this basis, the line system would pay out in 16 months.

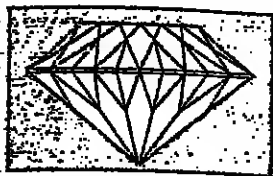
Sapphire and Dyne are pursuing the leasing of further acreage in the area as indicated on the map shown above. While expenditure of \$1.73m is included in the projected cash flow to 1986 to allow for the exploration and potential development of this acreage, no amount has been included in the reserves.

### Chaparral Resources, Inc.

*South Madden*  
SPV has entered into an agreement with Chaparral, a quoted US oil and gas exploration company, jointly to appraise and develop their interests in the South Madden field, the terms and conditions of which are described in paragraph 7(c) of Section 10. The total purchase price will only become payable after satisfactorily testing the performance of the first two wells to be drilled.

The acreage in which Sapphire, subject to fulfilment of those conditions, will have an average working interest of 24% in 37 sections covering 19,070 acres, is located immediately south of the prolific Madden gas field and just north of the Frenchie Draw gas/condensate field in Fremont and Natrona Counties, Wyoming and is mainly in 2 large blocks. The area between these blocks has been purchased recently by a major quoted US oil company.





## Sapphire Petroleum P.L.C.

The leases are all Federal leases and are principally within the Reservoir Creek Unit, a Federal onshore exploratory unit which Cheparrel formed with approval from the US Bureau of Land Management in 1979. This ensures orderly development of the field as a whole. Cheparrel is the unit operator.

### Geology and Exploration

The South Madden area lies in and along the synclinal structural axis of the Wind River Basin. The depth to the top of the Lower Fort Union formation is approximately 7,500' to 8,400'. The area is flanked to the north by the Madden anticline, one of the largest producing structures in the Rocky Mountain Region, in excess of 23 miles long and 10 miles wide and to the south by a moderately dipping monocline with structural nosing at the Reservoir Creek area, produces from the Lower Fort Union. The Lower Fort Union consists of a series of alternating sandstones, siltstones, shales and coals deposited in broad river flood plains, swamps, channels and deltas. The accumulation of hydrocarbons is controlled primarily by stratigraphic conditions. The average thickness of the Lower Fort Union in this area is about 2,800' within which the Madden field 434' and in the French Draw field 335'. In 1984, two wells were completed by Cheparrel in the Lower Fort Union, one in the eastern part of the area (Reservoir Creek Unit 1-34) and one in the western part (Pony Creek Unit 1-35). Each was completed in a single sand layer, although several are present in the whole formation. The 1-34 well tested 657 MCF of gas per day and 30 barrels of condensate per day. A gas line is currently being connected to this well. From the 1-35 well, gas sales began in July 1984 and after 30 days the rate was 850 MCF of gas per day.

### Reserves and Development Programme

Assuming that both Cheparrel and Sapphire participate equally in all future development as provided in the agreement, Bergeson estimates that the potential production attributable to Sapphire will be in the following range:

|        | Gas (MMCF) | Oil (Barrels '000s) | Undiscounted (\$'000s) | Discounted at 10% (\$'000s) |
|--------|------------|---------------------|------------------------|-----------------------------|
| Case A | 14,856     | 594                 | 45,090                 | 14,477                      |
| Case B | 20,692     | 828                 | 68,661                 | 23,017                      |

The range of estimates arises because, while the volume of gas in place is generally agreed, the productive potential of each well, depending as it does on permeability and areas of drainage, is at present more difficult to determine. Both cases use the French Draw field for analogy and assume the drilling of 54 wells with 15 non-completions, while Case B assumes that permeability is not uniform and that a better geological spread of wells will produce an average recovery of 2.1 BCF of gas per well with 5 non-completions. The Directors are aware of several opinions with a higher recovery per well and one that is lower.

Total gas production from South Madden is sold to Columbia Gas Transmission at \$3.51 net of taxes per MCF of gas. However, with effect from 1st January, 1985, the price of gas produced in the US was deregulated. As yet, this has led to no price adjustment in South Madden.

### Exploration

Sapphire will continue its policy of exploring with the above operators and will also consider other projects offered to it. No account of the results of such exploration is shown in reserves.

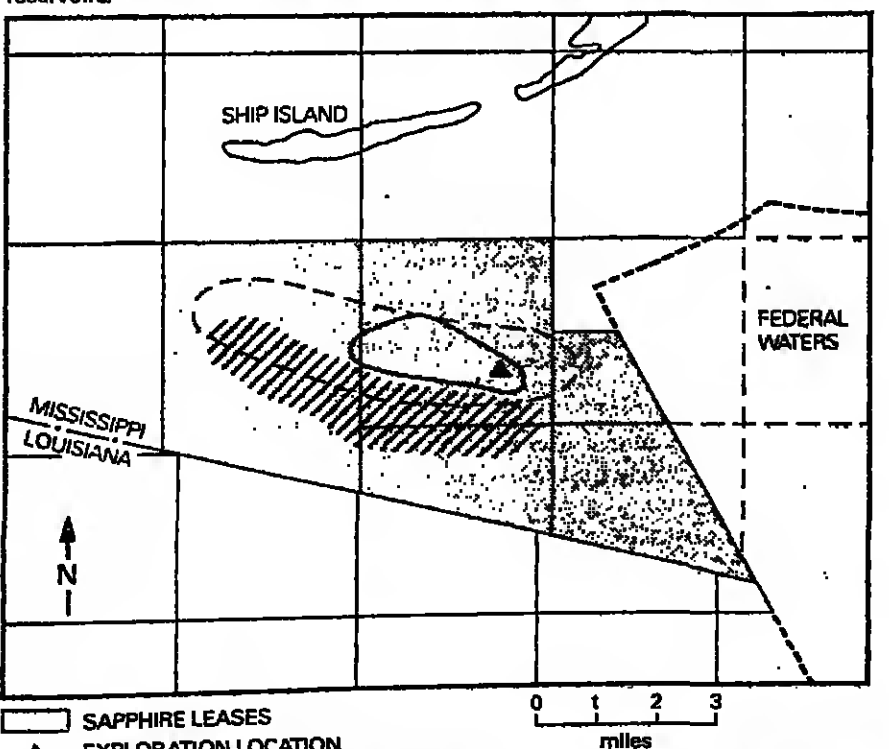
### High risk/reward exploration

In accordance with Sapphire's policy to commit approximately 10% of its cash flow to high risk/reward ventures, Sapphire has already been granted a lease and is preparing a prospect offshore Mississippi for exploration.

### Offshore Mississippi

On 13th February 1985, Sapphire was granted a lease by the State of Mississippi ("the State") on a block of 20,307 acres approximately 15 miles offshore Harrison County, some 3 miles south of Ship Island in 35' of water in the Gulf of Mexico. Sapphire proposes to drill a test well to a large apparent reef structure in the Oligocene Heterostegina formation which is well defined by seismic lines and hitherto undrilled. The whole feature could be 7 miles long and up to 2 miles wide according to seismic interpretation. The reef has a maximum thickness of about 600' and the projected total depth of the test well is 6,500'.

The Heterostegina ("Het") is a formation which extends from south east Texas across southern Louisiana into southern and offshore Mississippi. The eastern portion of the trend becomes very limey and exhibits the characteristics of a shallow limestone shelf. The best known Het production to date occurs on several of the more famous piercement salt domes in the upper Texas Gulf Coast and southern Louisiana, but most of it is from Het sands, not true carbonates. The middle shelf of the carbonate platform, on which the prospect lies, has remained unexplored in this area as attention has focused on the attractive Miocene sandstones to the south. Furthermore, exploration techniques involved in exploring for carbonates differ from those normally used for evaluating sandstone formations of the Gulf Coast. The geological features often found in a middle-shelf environment are bioherms and patch reefs. These are difficult to locate, but where these types of limestone traps contain oil, they are usually ranked among the world's best reservoirs.



In addition to the main reef body of the prospect, there is also strong seismic evidence of downlapping beds, particularly to the south and west of the main structure, which may have important porosity development, as occurs in the highly productive fore reef of the Mexican middle Cretaceous.

The southern boundary of the lease is the state line between Mississippi and Louisiana, the exact location of which is in dispute. However, Sapphire has been advised that the main body of the prospect lies well to the north of the disputed area.

Tenders are being sought from various petroleum management contractors to act as managers of the wildcard operation. It is estimated that the total dry hole cost will be approximately \$900,000. Considerable industry interest has been shown in this project. It is the intention to sell an interest so as to leave Sapphire with a controlling interest while reducing substantially the cost to Sapphire of drilling the well.

**Rocky Mountain Overtrust Belt**  
Sapphire has recently increased its working interest in the Willow Creek and Sapphire Mountain blocks in Granite County, Montana to 87.5% on advantageous terms. Until Mountain blocks in Granite County, Montana to 87.5% on advantageous terms. Until economic conditions for deep gas change, Sapphire has decided not to commence drilling, although extensive seismic work has been carried out and a location selected.

### Section 3 - Accountants' Report

Set out below is the text of a letter addressed by Arthur Andersen & Co. to the Directors and to the directors of Williams de Broe:

The Directors  
Sapphire Petroleum P.L.C.  
P.O. Box 515  
Austin Friars  
London EC2P 2HS

Arthur Andersen & Co.  
1 Surrey Street  
London WC2R 3PS

25th June, 1985

The Directors  
Williams de Broe Hill Chaplin & Company Limited  
P.O. Box 515  
Austin Friars  
London EC2P 2HS

Dear Sirs,

1. Introduction  
In this report the following definitions apply:  
"Company"  
"Sapphire" or "Sapphire Group"

Sapphire Petroleum P.L.C.  
the Company and its subsidiaries

The Company was incorporated in England on 24th April, 1981, and acts as holding company for a group of wholly-owned subsidiaries. The principal objective of the Sapphire Group is to provide UK investors with access to a broad spread of US oil and gas exploration and production opportunities.

We have examined the audited consolidated accounts of the Company and its subsidiaries from incorporation to 31st December, 1984. The financial information set out in this report is based on the audited accounts of the Sapphire Group, which have been prepared under the historical cost convention. The information has been presented in the form required for annual accounts by the Companies Act 1981. The financial information covers the period from 24th April, 1981 to 31st December, 1981 and each of the three years ended 31st December, 1984. In our opinion, the consolidated financial information set out in this report, which has been prepared on the basis described above, gives a true and fair view of the state of affairs of the Company and the Sapphire Group as at 31st December, 1984, and of the results and sources and applications of funds of the Sapphire Group for the periods under review.

### 2. Accounting Policies

The significant accounting policies of the Sapphire Group, which have been applied consistently in arriving at the financial information set out below, are as follows:

- 1. Basis of accounting**  
The accounts are prepared under the historical cost convention. All appropriate intercompany transactions and balances are excluded from the consolidated accounts.
- 2. Foreign currency translation**  
Normal trading activities denominated in foreign currencies are recorded in sterling at the exchange rate as of the date of the transaction. Assets and liabilities denominated in foreign currencies have been translated into sterling at the rate ruling at the balance sheet date. Differences arising on the translation of foreign currency transactions, and of assets and liabilities at the balance sheet date, have been reflected in the profit and loss account. Exchange differences arising on the re-translation of the opening net investment in subsidiary companies are reflected through reserves.
- 3. Intangible fixed assets**  
Non-producing leasehold costs are carried at the lower of cost or valuation; they will be transferred to oil and gas properties once exploration work has commenced. Recovery of these costs is dependent upon successful exploration for, and development of, oil and gas.
- 4. Tangible fixed assets**  
Oil and gas properties are accounted for on the "full cost" basis, whereby all costs of exploration for and development of oil and gas reserves are capitalised as incurred and depleted over total estimated proved reserves on a unit-of-production basis. Additional depletion is provided if necessary to write-down the full cost pool to the estimated present value of the oil and gas reserves.
- 5. Turnover**  
Turnover comprises the value of sales of oil and gas produced in the year.
- 6. Taxation**  
Corporation tax payable is provided on taxable profits at the current rate. Deferred taxation represents the amount required to allow for the effect of income and expense (primarily interest) being attributable for tax purposes to periods different from those in which credits and charges are recorded in the accounts, and is computed using the liability method.

### 3. Profit and Loss Account

The consolidated results of the Sapphire Group for the period ended 31st December, 1981 and the three years ended 31st December, 1984 are set out below:

|  | Period ended 31st December | 1981  | 1982    | 1983    | 1984    |
|--|----------------------------|-------|---------|---------|---------|
| Notes  |                            | £'000 | £'000   | £'000   | £'000   |
| Turnover   | (i)                        | 3     | 317     | 1,104   | 2,611   |
| Cost of sales  |                            | —     | (283)   | (780)   | (2,027) |
| Depreciation   |                            | —     | (124)   | (278)   | (753)   |
| Operating costs                                      |                            | —     | (115)   | (162)   | (145)   |
| US production taxes                                  |                            | —     | —       | —       | —       |
|  | (ii)                       | —     | (402)   | (1,120) | (2,925) |
| Gross profit (loss)                                  | (i) and (ii)               | 3     | (88)    | (116)   | (134)   |
| Additional depletion                                 |                            | (720) | (1,558) | —       | (3,241) |
| Interest income, net                                 |                            | 568   | 805     | 482     | 172     |
| Exchange gains                                       |                            | 134   | 804     | 822     | 1,765   |
| Administrative expenses                              | (iii)                      | (58)  | (102)   | (327)   | (417)   |
| Profit (loss) on ordinary activities before taxation |                            | (73)  | (336)   | 771     | (2,535) |
| Taxation   | (iv)                       | (147) | (284)   | (225)   | (387)   |
| Profit (loss) after taxation                         |                            | (220) | (620)   | 546     | (2,922) |
| Accumulated deficit at beginning of period           |                            | —     | (220)   | (820)   | (2,75)  |
| Accumulated deficit at end of period                 |                            | (220) | (820)   | (275)   | (3,207) |

### Notes:

- All the turnover, cost of sales and additional depletion arose in the US.
- Additional depletion represents amounts written off in order to reduce capitalised exploration and development costs to the estimated present value of the oil and gas reserves. In 1984, the Sapphire Group expended approximately £2,500,000 on oil and gas exploration and development. Little value can be ascribed to this expenditure by independent engineers until further drilling has taken place. Accordingly, the Directors have deemed it prudent to write off a proportion of this expenditure.
- Administrative expenses include the following:  

|                                       | 1981 | 1982 | 1983 | 1984 |
|---------------------------------------|------|------|------|------|
| Directors' remuneration               | 5    | 9    | 9    | 18   |
| Auditors' remuneration                | 5    | 15   | 15   | 15   |
| Depreciation of tangible fixed assets | —    | —    | —    | 2    |

In addition, fees of approximately £25,000 were charged for geological services rendered to a group company by a company in which a Director has an interest.
- Taxation expenses comprise:  

|                     | 1981 | 1982 | 1983 | 1984 |
|---------------------|------|------|------|------|
| United Kingdom      | 95   | 232  | 126  | 340  |
| Current taxation    | 52   | —    | 64   | 10   |
| United States       | —    | 32   | 36   | 47   |
| Windfall profit tax | —    | —    | —    | —    |
|                     | 147  | 264  | 226  | 387  |

The UK tax charges are computed at statutory rates. Deferred taxation arises on notional interest income accruing on unsecured loan notes; the charge for 1983 is stated net of taxation credit of £36,000 representing the effect of tax rate changes arising from the Finance Act 1984.

For the purposes of US Income Tax, at 31st December, 1984, the Sapphire Group had a carryforward net operating loss of approximately \$10 million.

No dividends have been declared or paid since incorporation.

### 4. Sources and Application of Funds

The consolidated statements of source and application of funds of the Sapphire Group for the period ended 31st December, 1981 and the three years ended 31st December, 1984 are set out below:

|   | Period ended 31st December | 1981  | 1982    | 1983    | 1984    |
|---|----------------------------|-------|---------|---------|---------|
| Notes   |                            | £'000 | £'000   | £'000   | £'000   |
| Source of funds                               |                            |       |         |         |         |
| Profit (loss) after taxation                  |                            | (220) | (620)   | 546     | (2,922) |
| Add items not involving the movement of funds |                            | —     | 263     | 780     | 2,827   |
| Depreciation and depletion                    |                            | 720   | 1,558   | —       | 3,241   |
| Additional depletion                          |                            | 96    | 222     | 126     | 340     |
| Funds from operations                         |                            | 595   | 1,453   | 1,451   | 3,179   |
| Issue of shares, net of expenses              |                            | 8,022 | —       | 3,586   | —       |
| Issue expenses                                |                            | —     | —       | —       | (16)    |
| Decrease in working capital, as shown below   |                            | —     | 1,559   | 153     | 5,557   |
|   |                            | 8,617 | 3,052   | 5,190   | 8,727   |
| Application of funds                          |                            |       |         |         |         |
| Tangible fixed assets                         |                            | 1,319 | 3,785   | 5,262   | 8,001   |
| Intangible fixed assets                       |                            | 1,072 | 10      | —       | 578     |
| Foreign exchange adjustments                  |                            | 72    | (723)   | (72)    | 148     |
| Increase in working capital, as shown below   |                            | 7,155 | —       | —       | —       |
|   |                            | 8,617 | 3,052   | 5,190   | 8,727   |
| Increase (decrease) in working capital        |                            | 338   | 189     | 1,230   | (1,164) |
| Debtors                                       |                            | (58)  | (53)    | (77)    | (237)   |
| Creditors                                     |                            | —     | —       | —       | —       |
| Movement in net liquid funds                  |                            | 6,879 | (1,718) | (1,365) | (3,527) |
| Cash and short-term deposits                  |                            | (3)   | 3       | —       | (629)   |
| bank overdraft                                |                            | 7,155 | (1,598) | (1,153) | (5,557) |

### Notes:

The issue of shares in 1981 was made to capitalise the Company and to provide funds for the initial investment programme.

The issue of shares in 1983 comprised the net proceeds of the rights issue amounting to £3,017,000 and the consideration of £569,000 for the acquisition of AFE and BAO as follows:

|                        | £'000 |
|------------------------|-------|
| Oil and gas properties | 205   |
| Cash                   | 264   |
|                        | 569   |

### 5. Balance Sheet

The balance sheet of the Company and the consolidated balance sheet of the Sapphire Group as at 31st December, 1984 are set out below:

|  | Notes  | Consolidated 31st December 1984 | Company 31st December 1984 |
|--|--------|---------------------------------|----------------------------|
|  |        | £'000                           | £'000                      |
| Fixed assets                                   |        |                                 |                            |
| Tangible assets                                | (i)    | 10,513                          | 4                          |
| Intangible assets                              | (ii)   | 2,365                           | —                          |
| Investments                                    |        | —                               | 3,527                      |
|  |        | 12,878                          | 3,531                      |
| Current assets                                 |        |                                 |                            |
| Debtors  | (iii)  | 633                             | 8,051                      |
| Cash at bank and in hand                       |        | 298                             | 224                        |
|  |        | 901                             | 8,275                      |
| Creditors: amounts falling due within one year | (iv)   | (11,055)                        | (81)                       |
| Net current assets (liabilities)               |        | (11,944)                        | 9,194                      |
| Total assets less current liabilities          |        | 12,725                          | 12,725                     |
| Provisions for liabilities and charges         | (v)    | (783)                           | (783)                      |
| Net assets                                     |        | 11,932                          | 11,932                     |
| Capital and reserves                           |        |                                 |                            |
| Called up share capital                        | (vi)   | 8,944                           | 8,944                      |
| Share premium account                          |        | 6,658                           | 6,658                      |
| Translation reserve                            | (vii)  | 2,537                           | 2,537                      |
| Revaluation reserve                            | (viii) | —                               | (4,714)                    |
| Retained earnings (accumulated deficit)        | (ix)   | (3,207)                         | (1,507)                    |
| Total capital employed                         |        | 11,932                          | 11,932                     |

### Notes:

|                                     | Cost £'000 | Depreciation and depletion £'000 | Net book value £'000 |
|-------------------------------------|------------|----------------------------------|----------------------|
| (i) Tangible fixed assets comprise: |            |                                  |                      |
| (a) Consolidated                    |            |                                  |                      |
| Oil and gas properties              | 22,103     | 11,584                           | 10,509               |
| Fixtures and fittings               | 6          | 2                                | 4                    |
|                                     | 22,109     | 11,586                           | 10,513               |
| (b) Company                         |            |                                  |                      |
| Fixtures and fittings               | 5          | 2                                | 4                    |

### (ii) Investments:

The investment in subsidiaries is accounted for in the Company accounts under the equity method, whereby the original cost of this investment is adjusted for changes in the underlying value of the net assets with a corresponding credit or charge to the revaluation reserve. The Company had the following subsidiaries at 31st December, 1984:

| Company   | Country of incorporation or acquisition | Year of acquisition |
|---|---|---------------------|
| Sapphire Petroleum Investments Limited                                      | England                                 | 1981                |
| Sapphire Petroleum Holdings, Inc.   | USA                                     | 1981                |
| Sapphire Petroleum Ventures, Inc.   | USA                                     | 1981                |
| Sapphire Exploration & Production, Inc.                                     | USA                                     | 1981                |
| Austin Friars Energy Limited  | British Virgin Islands                  | 1983                |
| British American Oil Limited  | British Virgin Islands                  | 1983                |
| The investment in subsidiaries comprises:                                   |   |                     |
| Cost of investment  |   | £'000               |
| Surplus arising on re-translation of opening net investment in subsidiaries |   | 5,704               |
| Decrease in consolidated net assets of subsidiaries since incorporation     |   | 2,537               |
|   |   | 10,714              |

### (iii) Debtors comprise:

|  | Consolidated £'000 | Company £'000 |
|--|--------------------|---------------|
| Amounts falling due within one year          |                    |               |
| Trade debtors                                | 415                | —             |
| Outstanding contract advances                | 214                | —             |
| Other debtors                                | 3                  | —             |
| Notes receivable from subsidiary             | —                  | 1,486         |
| Amounts due from subsidiary                  | —                  | 677           |
|  | 633                | 2,166         |
| Amounts falling due after more than one year |                    |               |
| Notes receivable from subsidiary             | —                  | 5,885         |
|  | 633                | 8,051         |

Notes receivable from subsidiary comprise non interest-bearing, unsecured loan notes, issued by Sapphire Petroleum Holdings, Inc. on 3rd August, 1981 and 14th November, 1983 and maturing as follows:

|                                   |              |                    | Notional interest   | Book value at  |
|-----------------------------------|--------------|--------------------|---------------------|----------------|
|                                   |              |                    | accrued to          | 31st December, |
| Principal                         | Issue        | Maturing on        | 31st December, 1984 | 1984           |
| £'000                             | price        |                    | £'000               | £'000          |
| (a) Issued on 3rd August, 1981    |              |                    |                     |                |
| 1,500                             | 948          | 3rd February, 1985 | 538                 | 1,486          |
| 1,500                             | 831          | 3rd February, 1986 | 471                 | 1,302          |
| 1,500                             | 729          | 3rd February, 1987 | 413                 | 1,142          |
| 1,500                             | 639          | 3rd February, 1988 | 362                 | 1,001          |
| <u>8,000</u>                      | <u>3,147</u> |                    | <u>1,784</u>        | <u>4,931</u>   |
| (b) Issued on 14th November, 1983 |              |                    |                     |                |
| 2,000                             | 1,186        | 3rd February, 1989 | 142                 | 1,329          |
| 2,000                             | 1,073        | 3rd February, 1990 | 129                 | 1,202          |
| 1,675                             | 814          | 3rd February, 1991 | 86                  | 810            |
| <u>5,675</u>                      | <u>3,073</u> |                    | <u>367</u>          | <u>3,440</u>   |
| <u>11,675</u>                     | <u>9,220</u> |                    | <u>2,151</u>        | <u>8,371</u>   |

### (iv) Creditors falling due within one year comprise:

|                            | Consolidated £'000 | Company £'000 |
|----------------------------|--------------------|---------------|
| Bank loan                  | 629                | —             |
| Trade creditors            | 357                | 12            |
| UK Corporation Tax payable | 63                 | 63            |
|                            | 1,055              | 81            |

As at 31st December, 1984, the Sapphire Group had unsecured revolving credit facilities of up to \$1.2 million (see paragraph 6(v)).

(v) Provisions for liabilities and charges in the consolidated and Company balance sheet comprise UK deferred taxation attributable to timing differences arising on notional interest income accruing on unsecured loan notes.

(vi) At 31st December, 1984, the share capital of the Company comprised:

|  | £'000 |
|--|-------|
| Authorised:  |       |
| 15,000,000 Ordinary Shares of 50p each (see paragraph 6(i))  | 7,500 |
| Called up and fully paid:                                    |       |
| 13,587,625 Ordinary Shares of 50p each (see paragraph 6(ii)) | 6,944 |

(vii) At 31st December, 1984, the capital commitments of the Sapphire Group were approximately:

|                                   | £'000 |
|-----------------------------------|-------|
| Contracted for                    | 2,009 |
| Authorised but not contracted for | 1,708 |
|                                   | 3,716 |

### 6. Post balance sheet events

(i) Share Capital  
At an Extraordinary General Meeting of the Company on 12th June, 1985, the authorised share capital was increased to £15,000,000 by the creation of 15,000,000 new Ordinary Shares of 50p each.

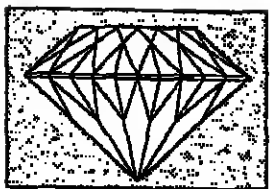
Also on 12th June, 1985, the Company issued an additional 1,373,500 Ordinary Shares in order to acquire the entire issued share capital of JMGL, Inc., a management company incorporated in the US. The shares were issued at £1 each and credited as fully paid.

(ii) Acquisition of JMGL, Inc. and amendment of partnership agreement with Johnson Oil Company.  
Since 1981, the Sapphire Group has invested in oil and gas projects through the Johnson Oil Company General Partnership ("JOC").

In 1985 the Sapphire Group's structure, and the agreement constituting JOC, were amended such that a newly-incorporated wholly-owned subsidiary, JMGL, Inc., became the Managing Partner of JOC in place of the existing Managing Partners, who were Johnson Management Group Ltd. ("JMGL"), which held a 9% interest in JOC, and Johnson Energy International Inc. ("JEI"). The former partners of JMGL transferred their interests in JMGL to JMGL, Inc. in exchange for ordinary shares. In turn, these shares were sold to the Company in consideration of the issue of 1,373,500 Ordinary Shares by the Company, as noted above.

In addition, JEI ceased to be a partner of JOC, and the administrative functions formerly carried out by JEI have been assumed by Sapphire Petroleum Ventures, Inc. ("SPV").





# Sapphire Petroleum P.L.C.

## Section 4 - Pro-forma Balance Sheet

The following is a pro-forma consolidated balance sheet of Sapphire based on the audited accounts at 31st December, 1984 and after taking into consideration the estimated net proceeds of the Offer for Sale, the acquisition of JMG and the acquisition of certain oil and gas interests from Chaparral:

|   | £'000         |
|---|---------------|
| <b>Fixed assets</b>                           |               |
| Tangible assets                               | 13,367        |
| Intangible assets                             | 2,366         |
|   | <b>15,733</b> |
| <b>Net current assets</b>                     |               |
| Cash  | 6,359         |
| Debtors                                       | 633           |
| Creditors                                     | (428)         |
|   | <b>6,564</b>  |
| <b>Provisions for liabilities and charges</b> | <b>(783)</b>  |
| <b>Net assets</b>                             | <b>22,106</b> |
| <b>Capital and reserves</b>                   |               |
| Share capital                                 | 10,898        |
| Share premium                                 | 11,878        |
| Translation reserve                           | 2,537         |
| Accumulated deficit                           | (3,207)       |
| <b>Total capital employed</b>                 | <b>22,106</b> |

### Notes to the Balance Sheet

- The pro-forma consolidated balance sheet is based on the consolidated balance sheet at 31st December, 1984 as shown above adjusted for the following:
  - the proceeds of the Offer for Sale, net of expenses, estimated at £20,000,000;
  - the shares issued on the acquisition of JMG (see paragraph 6(i)) of Section 3;
  - the cash paid and shares issued on the proposed acquisition of certain oil and gas properties from Chaparral, assuming that all conditions are satisfied (see paragraph 6(ii)) of Section 3; and
  - the repayment of the bank loan.
- Transactions subsequent to 31st December, 1984 which are denominated in US dollars have been translated into sterling at £1 = \$1.25.

## Section 5 - Report from Gruy

Set out below is the text of a letter received by the Directors from Gruy:

The Directors  
Sapphire Petroleum Holdings, Inc.  
1725 One Dallas Centre  
Dallas  
Texas 75201

June 3rd, 1985

Gentlemen:

As requested by your board of directors, we have estimated reserves and future revenue attributable to interests owned by Sapphire Petroleum Holdings, Inc. (Sapphire) in certain oil and gas properties located in Colorado, Louisiana, Oklahoma and Texas. Revenue projections were made with no escalation of product prices and costs. In addition, we have evaluated Sapphire's interests in certain exploratory leasehold acreage in Louisiana, Mississippi, Montana, Oklahoma and Texas.

As of April 1st, 1985, we estimate the net reserves and future net revenue attributable to Sapphire's interests to be:

| Reserve Category              | Estimated Net Reserves |                  | Estimated Future Net Revenue |                     |
|-------------------------------|------------------------|------------------|------------------------------|---------------------|
|                               | Oil (Barrels)          | Gas (Mcf)        | Not Discounted               | Discounted at 10%   |
| Proved Producing              | 331,883                | 1,889,967        | \$6,637,850                  | \$7,643,706         |
| Proved Nonproducing           | 1,216                  | 81,680           | 107,154                      | 90,462              |
| Proved Behind - Pipe          | 39,465                 | 1,044,559        | 3,209,771                    | 1,828,299           |
| <b>Total Proved Developed</b> | <b>372,564</b>         | <b>2,006,116</b> | <b>12,954,776</b>            | <b>9,562,467</b>    |
| Proved Undeveloped            | 91,462                 | 1,036,808        | 2,986,115                    | 1,529,843           |
| <b>Total Proved</b>           | <b>464,026</b>         | <b>4,041,924</b> | <b>15,939,890</b>            | <b>11,092,310</b>   |
| Total Probable                | 222,805                | 1,665,870        | 5,221,892                    | 2,903,369           |
| Total Possible                | 175,221                | 3,631,504        | 11,116,551                   | 6,157,840           |
| <b>Total All Categories</b>   | <b>863,152</b>         | <b>9,339,298</b> | <b>\$32,278,133</b>          | <b>\$19,753,319</b> |

The estimated future net revenue shown is that which will be realized from the sale of the estimated oil and gas reserves after deduction of ad valorem taxes, production and windfall profit taxes, operating costs and estimated required capital expenditures. No deductions have been made for general corporate overhead or income taxes. It has been assumed the windfall profit tax phase-out period will begin January 1st, 1991. Discounted future net revenues were calculated using ten per cent. discount factors, compounded annually, and are not represented to be fair market value. The estimated reserves and revenues are based on individual well projections and do not include salvage values or abandonment costs.

The estimated reserves and revenue by operator are as follows:

| Operator                          | Estimated Net Reserves |                  | Estimated Future Net Revenue |                     |
|-----------------------------------|------------------------|------------------|------------------------------|---------------------|
|                                   | Oil (Barrels)          | Gas (Mcf)        | Not Discounted               | Discounted at 10%   |
| Dyne Exploration Company          | 1,026                  | 1,021,102        | 893,185                      | \$643,880           |
| Murexco Petroleum, Inc.           | 392,516                | 3,548,162        | 14,579,013                   | 8,854,127           |
| Whitman Exploration Company       | 202,804                | 3,493,422        | 10,484,155                   | 5,902,199           |
| Sapphire Petroleum Ventures, Inc. | 132,540                | 433,848          | 2,796,887                    | 2,204,309           |
| Others                            | 134,466                | 842,664          | 3,435,133                    | 2,648,594           |
| <b>Total</b>                      | <b>863,152</b>         | <b>9,339,298</b> | <b>\$32,278,133</b>          | <b>\$19,753,319</b> |

The above figures include reserves of different reserve categories which have not been risk adjusted.

Sapphire also owns interests in 138,147 gross acres (113,605 net acres) of exploratory oil and gas leases located in Louisiana, Mississippi, Montana, Oklahoma and Texas. It is our opinion that as of April 1st, 1985, the Sapphire interests in these leases had a value of approximately \$3,582,000. Net acres are the gross acres multiplied by the Sapphire working interests. The value is based on the current lease values in the areas where the prospects are located. A substantial portion of the acreage value is in Harrison County, Mississippi, and Grant County, Montana.

The reserve estimates and production rate projections summarized in this report are based on detailed geologic and engineering studies. Where sufficient data are available, reserve estimates and rate projections for the producing properties have been based on the extrapolation of established performance trends. Reserves for nonproducing properties have been estimated from volumetric calculations or by analogy to similar properties and corresponding rate projections were made consistent with current producing rates and performance of comparable wells.

As used in this report developed reserves are the estimated quantities of crude oil, condensate, natural gas liquids and natural gas which are recoverable from existing wells with present operating conditions. Developed reserves include producing, completed waiting on market and behind-pipe reserves. Developed behind-pipe reserves are in reservoirs behind the casing in existing wells and are considered proved either by production from other wells in the field, by tests or by core analysis in certain instances. Developed behind-pipe reserves require only moderate expense for completion and recovery.

Undeveloped reserves are those reserves of hydrocarbons which are estimated to be recoverable from wells yet to be drilled or from behind-pipe zones not considered proved and which would require major expenditures for completion, testing and recovery. Undeveloped reserves in this report are classified as proved, probable and possible.

Proved reserves are those which have been proved to a high degree of certainty for commercial production by reason of actual production or successful testing. Proved reserves are defined as follows: (a) reasonable geologic interpretation of structure and known continuity of oil or gas saturated reservoir rock; (b) proved undeveloped reserves are those proved reserves on undeveloped acreage or from existing wells where relatively major expenditures are required to recover the additional proved reserves. In this report proved reserves on undeveloped acreage are limited to drilling units which are direct offsets to proved developed units and which have a high probability of production when drilled.

Probable reserves are those which are defined by less direct well control than proved reserves, but which are based on evidence of producible oil or gas within the limits of the structure or reservoir above known or inferred water saturation. In this report probable reserves are limited to drilling units which are "second offsets" or "step outs" to proved developed units.

Possible reserves are those less well-defined by structural control than probable reserves and which may be based largely on electrical log interpretation and widespread evidence of oil or gas saturation. In this report possible reserves are limited to those drilling units which are no greater than three locations away from proved developed reserves.

Probable and possible reserves have progressively higher degrees of risk involved than proved reserves. The degree of risk is influenced by economic and technological factors as well as the time element. The estimated reserves and revenues presented in this report for probable and possible reserve classifications have not been risk adjusted to make them comparable to proved reserves. The extent to which these reserves ultimately may be reclassified as proved is dependant on future drilling, testing and well performance.

It should be noted that there can be no assurance that the quantities of oil and gas classified herein as "reserves" will ultimately be recovered. The accuracy of reserve estimates depends on the quantity and quality of geologic data, production performance and reservoir engineering data, as well as the judgmental interpretation of such data. The reserve estimates presented in this report should be viewed with the understanding that reservoir performance subsequent to the date of the estimates may justify their revision and that, as a general rule, early reserve estimates based on volumetric analysis or analogy are less reliable than those based on lengthy production performance.

Data such as extent and character of ownership, reversions, product prices, test and production data, operating costs and well-logs which were furnished by Sapphire, Johnson Energy Companies and the various operators of the properties have been accepted as represented. Except for the properties previously operated by Arena Petroleum in Archer and Young Counties, Texas, no field inspections, well tests or audits of operating expenses were conducted by H. J. Gruy and Associates, Inc. personnel in conjunction with this study.

If investments or business decisions are to be made in reliance on these estimates by anyone other than our client, such person with the approval of our client is invited to visit our offices at his expense so that he can evaluate the assumptions made and the completeness and extent of the data available on which our estimates are based.

Any discussion or publication of this report or any part thereof must include this letter in its entirety.

Yours very truly,

H. J. GRUY AND ASSOCIATES, INC.

## Section 6 - Report from Bergeson

Set out below is the text of a letter received by the Directors from Bergeson:

The Directors  
Sapphire Petroleum Holdings, Inc.  
1725 One Dallas Centre  
Dallas  
Texas 75201

4891 Independence Street,  
Suite 272,  
Wharfedale,  
Colorado 80033,  
USA

June 3rd, 1985

Re: Reservoir Creek Evaluation  
Township 38-38 North,  
Range 88-90-81 West,  
Fremont County, Wyoming

Gentlemen:

At your request Jerry R. Bergeson & Associates (JRBA) has evaluated the Reservoir Creek Prospect located generally in Township 38 North, Range 88-90-81 West, Fremont County, Wyoming with respect to the potential production from the Lower Fort Union Formation. The effective date of this evaluation is June 1st, 1985. This letter summarizes the results and methodology of the evaluation. A detailed discussion of the evaluation may be found in the report prepared by JRBA on this property dated June 3rd, 1985.

### Summary

The following is a summary of the potential production and estimated net present value of Sapphire Petroleum PLC's interest in the potential production of the Reservoir Creek Prospect, Fremont County, Wyoming. All values are expressed in US dollars.

|        | Gas (MMCF) | Oil (MMBO) | Estimated Net Present Value (US\$) | Disc. at 10% (US\$) |
|--------|------------|------------|------------------------------------|---------------------|
| Case A | 14,856     | 594        | 45,090                             | 14,477              |
| Case B | 20,692     | 828        | 68,661                             | 22,017              |

### Economic Methods

The economic analysis utilized JRBA's in-house computer model using initial investment costs provided by Sapphire Petroleum PLC. The scenario for oil and gas pricing and operating costs was run on constant pricing throughout the life of the project. Operating cost of \$3,000 per well per month with an estimated cost of \$800,000 per completed well were used in the economic analysis. A gas price of \$3.51 per Mcf net of taxes and an oil price of \$27.00 per barrel net were used. State severance and ad valorem taxes were estimated at 13% and windfall profits tax was calculated based on JRBA's understanding of the windfall profits tax.

### Methodology

- An evaluation including ultimate recovery, production forecasts and before income tax revenue projections were made by JRBA for the Reservoir Creek Prospect, Fremont County, Wyoming using the Franchise Draw Field for analogy. The production performance of the wells in Franchise Draw Field was used to estimate a range of potential production from the Reservoir Creek Unit. The range of the potential value of the Reservoir Creek Field was evaluated by using two cases. Case A is based on an estimated average recovery per well of 0.8 bcf. Case B is based on an estimated average recovery per well of 1.8 bcf. A provision was made for 15 non-completions during this development program in the estimated cash flow projections. Case B utilized an average recovery per well of 2.1 bcf. This was based on the Franchise Draw Field production with 25% of the wells averaging a recovery of 0.7 bcf, 50% averaging a recovery of 1.8 bcf, and 25% averaging a recovery of 4.1 bcf. The case B scenario also assumed 54 wells would be drilled but only 5 non-completions would be encountered.

- Revenue forecasts were carried out on a before-income tax basis. Provision was made for severance, ad valorem and windfall profits tax as presently applicable. For windfall profits tax purposes, Sapphire Petroleum PLC was assumed to be an independent producer subject to lower tax rates.

- Acreage values were not assigned to the non-producing or undeveloped lands.

- Pertinent data such as well data, production information, extent and nature of ownership and burdens and other factual data were supplied by either Chaparral Resources, Inc., Sapphire Petroleum PLC, or obtained from public sources and were accepted as presented. The effective date of this study is June 1st, 1985.

- No on-site inspection was made nor was deemed necessary to evaluate this prospect.

Although commercial production from deeper formations, i.e. Lance, Sussex and Shannon, is present in offsetting fields, these zones were not included in this evaluation. Existing well logs indicate that these intervals are present under the acreage evaluated, and may be potentially productive.

### Statement of Risk

The accuracy of reserve and economic evaluations are subject to uncertainty. The magnitude of this uncertainty is generally proportional to the quality and quantity of data available for analysis. As a well matures and new information becomes available, the estimates may be revised either upwards or downwards. The previous reserve assignments. Sometimes these may result not only in a significant change to the reserves and value assigned to a property, but may also impact the total company reserve and economic status. The reserves and forecast contained in this report are based on technical analysis of the available data using accepted engineering principles. However, it must be accepted with the understanding that further information and future reservoir performance subsequent to the date of this estimate may justify additional revision.

The potential production estimate was based on analogy to the Franchise Draw Field located southeast of the Reservoir Creek Prospect. The Reservoir Creek Unit has two wells which have been tested and for which well logs exist. These wells appear to be similar to Franchise Draw wells adding credibility to the use of Franchise Draw as an analogous reservoir. The Franchise Draw wells have recoveries which range from 300 MMcf to 8,600 MMcf. If the Reservoir Creek Unit does not encounter wells with recoveries in excess of 2,000 MMcf as were found in Franchise Draw, the potential production and resulting cash flows for Reservoir Creek may be substantially reduced. Any estimate is especially subject to uncertainty when analogy is applied.

JRBA expresses no opinion and makes no representation as to questions of legal interpretation, accounting interpretation, or as to the sufficiency for your purposes of our procedures discussed herein. Furthermore, the reader should be aware that there are certain inherent risks involved with oil and gas well exploration, drilling and completion and that no assurance is given as to the success of drilling or completing any well or the economic return from possible production. Reserve estimates and cash flow forecasts shown herein are not intended as a recommendation to drill specific locations.

Neither JRBA nor its employees have any interest in this property, Sapphire Petroleum PLC, or Chaparral Resources, Inc.

Very truly yours,  
JERRY R. BERGESON & ASSOCIATES, INC.

## Section 7 - Glossary of Terms

The following is a glossary of the principal technical terms as used in this prospectus.

|                                   |   |
|-----------------------------------|---|
| <b>Appraisal Drilling</b>         | An intermediate phase between the first exploration well and development drilling. This phase often delineates the extent of a field but is not necessarily required on all projects.   |
| <b>Attributable Barrels</b>       | Those barrels of oil produced from any lease to which the holders of an interest are entitled by virtue of their interest in that lease.  |
| <b>Barrel</b>                     | One barrel of oil equals 42 US gallons.   |
| <b>Barrels of Oil Equivalent</b>  | Approximately 10 MCF of gas are equivalent, in terms of cash value currently available to Sapphire, to one barrel of oil.   |
| <b>BCF</b>                        | A billion (thousand million) cubic feet.  |
| <b>Bioherm</b>                    | A lens-like rock body of organic origin within rocks of different lithology.  |
| <b>Carried Working Interest</b>   | An agreement under which one party (the carrying party) agrees to pay for a portion of or all of the development costs of another party (carried party) on a property in which both own a portion of the working interest.                            |
| <b>Completion</b>                 | Refers to the work performed to open a particular formation and the installation of permanent equipment for the production of oil and gas from a recently drilled well.   |
| <b>Development Drilling</b>       | Drilling to a known productive geological zone in a previously discovered field.  |
| <b>Dry Hole</b>                   | An exploratory or development well that does not produce oil or gas in commercial quantities.   |
| <b>Exploratory Drilling</b>       | Drilling either in search of a new and as yet undiscovered reservoir of oil and/or gas, or with the hope of greatly extending the limits of an existing reservoir.  |
| <b>Field</b>                      | An area consisting of a single or multiple reservoirs all grouped on or related to the same individual geological structure and/or stratigraphic feature.   |
| <b>Fracture Treatment (Frac.)</b> | Injection of fluid into an oil or gas well at high pressure to induce artificial fractures in the reservoir and so to increase the inflow of oil or gas into the well. Solid grouts, e.g. sand, are usually added to prop open the fracture.          |
| <b>Gas Well</b>                   | A well producing primarily natural gas.   |
| <b>Lease</b>                      | A contract in which the owner of mineral rights gives an oil company the right to explore for, develop, and produce minerals from the property.   |
| <b>MCF</b>                        | The standard measure of volume for natural gas — 1,000 cubic feet.  |
| <b>MMCF</b>                       | 1,000,000 cubic feet.   |
| <b>Multi Pay Zone</b>             | A geological structure incorporating more than one known hydrocarbon bearing formation.   |
| <b>Net Acres</b>                  | The gross acres multiplied by the working interest in the lease.  |
| <b>Net Reserves</b>               | Those reserves net to the appraised interests after deducting all leasehold and royalty interests owned by others.  |
| <b>Net Revenue</b>                | Revenue which could accrue to the appraised interests from the production and sale of the estimated net reserves after deducting production taxes, windfall profit taxes, direct lease operating expenses, ad valorem taxes and capital expenditures. |
| <b>Offset Well</b>                | A well drilled on the next location to an existing productive well.   |
| <b>Oil Well</b>                   | A well which produces crude oil.  |
| <b>Operator</b>                   | The party who supervises operations on an oil or gas lease.   |
| <b>Payout</b>                     | That point in time when cumulative distributions from a productive property to the interested parties first equal the aggregate of capital contributions made by the parties, or in certain cases a specific preferred return.                        |
| <b>Permeability</b>               | The measure of the ease with which fluids can move through a reservoir.   |
| <b>Porosity</b>                   | The relative volume of the pore space compared to the total bulk volume of the reservoir rock.  |
| <b>Prospective</b>                | An area with one or more formations that have potential to be productive of oil and gas but which has not been sufficiently tested in the immediate area to prove or condemn the potential would be considered prospective.                           |
| <b>Reserve Categories</b>         | The various categories of oil and gas reserves are defined in the Petroleum Consultants' reports in Sections 5 and 6.   |
| <b>Royalty Interest</b>           | The share of the gross production of oil and gas on a property payable to the mineral estate owner who does not bear any of the costs of developing or producing the oil or gas.  |
| <b>Working Interest</b>           | The interest in the oil and gas in place which is burdened with the cost of development and operation of the property.  |

## Section 8 - Illustration of Projected Cash Flow

Set out below is an illustration of the projected cash flow of Sapphire for the period ending 31st December, 1986. It has been prepared, for the purposes of illustration only, on the basis of the Petroleum Consultants' Reports (see Sections 5 and 6) and on the basis that Sapphire's production, development and exploration drilling programme for the period until 31st December, 1986 is implemented in full.

It is emphasized that this is not a forecast and should be read in conjunction with the assumptions set out below.

|  | 6 months ending 30th June 1985 | 6 months ending 31st December 1985 | Year ending 31st December 1985 | Year ending 31st December 1986 |
|--|--------------------------------|------------------------------------|--------------------------------|--------------------------------|
| Net operating revenues — existing projects | 1,128                          | 1,850                              | 2,978                          | 6,000                          |
| — new projects                             | —                              | 176                                | 176                            | 850                            |
| <b>Administrative expenses</b>             | <b>1,128</b>                   | <b>2,025</b>                       | <b>3,153</b>                   | <b>6,850</b>                   |
|  | (548)                          | (450)                              | (898)                          | (900)                          |
| <b>Operating cash surplus</b>              | <b>580</b>                     | <b>1,576</b>                       | <b>2,156</b>                   | <b>5,950</b>                   |

|   |                |              |              |              |
|---|----------------|--------------|--------------|--------------|
| Cash balances (bank borrowings), beginning of period  | (418)          | (1,853)      | (418)        | 1,329        |
| Operating cash surplus                                | 580            | 1,576        | 2,156        | 5,950        |
| Oil and gas property acquisitions                     | (350)          | (1,250)      | (1,600)      | —            |
| Exploration and development expenditures              | (1,764)        | (6,443)      | (8,207)      | (6,504)      |
| Proceeds from Offer for Sale, net of expenses         | —              | 10,000       | 10,000       | —            |
| <b>Cash balances (bank borrowings), end of period</b> | <b>(1,853)</b> | <b>1,329</b> | <b>1,329</b> | <b>2,375</b> |

### Sensitivity Analysis

Should the gross selling price of oil and gas decline by 10%, or production rates decline by 10%, the operating cash surplus for the years ending 31st December, 1985 and 1986 would be \$7,827,000 and \$9,319,000 respectively.

### Assumptions

The following assumptions have been made in preparing the illustration of the projected cash flow shown above:

- The Group will not be materially affected by any of the risk factors detailed above.
- Net proceeds from the Offer for Sale after expenses will be \$10,000,000.
- No account has been taken of inflation.
- The projected price per barrel of oil and MCF of gas attributable to Sapphire's working interests are \$25.00 and \$2.41 respectively in 1985 and \$28.51 and \$2.51 respectively in 1986.
- The exploration and development programme and the acquisition of certain oil and gas properties from Dyne and Chaparral (see above) will proceed as anticipated, and the cost of the programme and acquisition will be funded out of the proceeds of the Offer for Sale and future cash flow.
- No account has been taken of any further projects which may be entered into in the period of the projected cash flow.
- Net income from existing projects is based upon an independent report prepared by Gruy. New projects comprise the acquisition of oil and gas properties from Dyne and Chaparral. The rate of income derived from the Dyne project (\$17,000 in 1985 and \$80,000 in 1986) is based on information received from the operator. It has been assumed that no income will be derived from the Chaparral properties in the projection period.
- No account has been taken of the interest that will accrue on projected cash balances.
- No account has been taken of dividends that may be paid in the period of the projected cash flow.
- Amounts denominated in sterling have been translated into dollars at the rate of \$1.25 of £1.

## Section 9 - Taxation

The following section summarises those aspects of US and UK taxation applicable to Sapphire and its Subsidiaries and the principal UK taxation implications for investors in Sapphire. Whilst every effort has been made to ensure the accuracy of the information set forth herein, no guarantee can be given that the law is as set forth, or that the US Internal Revenue Service or the UK Inland Revenue will interpret such law as indicated, herein. Potential shareholders who have any doubt as to their tax position are advised to consult their professional advisers.

### 1. US Taxation Federal Taxes

SPH is incorporated in the State of Delaware and SPV, SEP and JMG are incorporated in the State of Texas, United States. They will be subject to US federal tax on their income and capital gains. The rate of federal income tax is graduated up to 46 per cent, which applies on taxable income over \$100,000; capital gains are taxed at a rate of 28%.

JOC, being a partnership, is not itself subject to tax, as the tax charge arising from the partnership entry arises directly on the partners.

SPH and its wholly-owned US Subsidiaries file a consolidated return for US tax purposes enabling the profits and losses of the corporations involved to be offset against each other, thus generally ensuring maximum utilisation of the US tax allowances described below.

US taxation law has the usual distinction between capital costs and revenue costs. Tax relief for capital costs is usually spread over the life of the asset on a straight line basis, unless accelerated depreciation is available. Revenue costs are deducted as incurred. However, there are a number of special provisions reducing the effective rate of US taxation on ventures involving the exploration for and development of US oil and gas, the three most important being:

- Intangible drilling and development costs**  
Expenditures which are incidental to and necessary for the drilling of wells and their preparation for production and which in themselves have no salvage value may be deducted for tax purposes in the year in which they are incurred. Alternatively, these costs may be capitalised and tax relief claimed by means of depletion over the productive life of the well. This deduction is subject to recapture, as an addition to current taxable income, in the event of the disposal of the property at a gain.

- Depletion**  
Capital expenditures incurred in exploring for and acquiring oil and gas properties may be deducted for US tax purposes by means of a depletion allowance. Such capital expenditures include lease acquisition, geological and geophysical, and certain other costs. The depletion allowed for each oil and gas property is the greater of the allowance computed under the "cost" or "percentage" depletion methods. Percentage depletion may be utilised only by "independent producers". SPH and its subsidiaries qualify as independent producers since they are not engaged, directly or indirectly, in the retail marketing of oil and gas or oil and gas products and are not refineries or oil companies.

If cost depletion is utilised, the taxpayer is entitled to recover its capitalised cost in any property over the productive life of the property. Cost depletion, with respect to any specific property, cannot exceed the taxpayer's adjusted tax basis in that property. Unlike cost depletion, percentage depletion is not limited to the taxpayer's adjusted basis in the property, but continues to be available as a deduction each year, even after the adjusted basis has been fully depleted.

Percentage depletion is computed by multiplying a taxpayer's share of gross income from the property by a statutory percentage rate which is currently 15%. The percentage depletion allowance for a year may not exceed the lower of 50% of a corporation's taxable income from the property for the year or 65% of the total taxable income of the corporation for the year, and it is available only as to the first 1,000 barrels of average daily production of oil and the appropriate equivalent in gas.

Percentage depletion is not available, however, on properties acquired after 1974 which are, in accordance with the definition of the Internal Revenue Service, proven properties at the time of purchase. At present, approximately 60% of Sapphire's US properties obtain percentage depletion.

### (c) Investment Tax Credit

An investment tax credit may be available for expenditure on certain depreciable equipment and other tangible property with a useful life of at least three years. For accelerated cost recovery system ("ACRS") property with a useful life of three years the credit is 6% of the cost of the property. For all other ACRS qualified property it is 10% of the cost of the property.

There are limitations on the amount of the credit which may be used in any one year, but excess credits may be carried back three years and forward seven years subject to certain conditions. The credit is subject to recapture, as an addition to the current federal income tax liability, if the property ceases to be qualifying property such as when the property is sold or disposed of before the end of its useful life.

Two factors can increase the level of US tax. These are:

### (a) Windfall Profit Tax

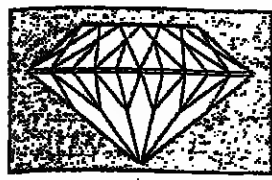
A special excise tax known as the "windfall profit tax" is levied on US produced crude oil. Oil is taxed in one of three tiers and the tax rate is applied to the difference between the sales price and a base price computed under guidelines established by the US Treasury Department. The Sapphire Group is currently taxed at the most favourable independent producer rate of 30%.

The windfall profit tax is an allowable deduction in computing income for US federal income tax purposes. It will be phased out over a period to begin after 31st December, 1987 and ending no later than 1991.

### (b) Minimum Tax

Corporations may be subject to a minimum tax on certain "preference items".





# Sapphire Petroleum P.L.C.

## 3. Taxation of Investors

Sapphire has to account to the UK Inland Revenue for ACT when it pays a dividend.

A UK resident individual shareholder is entitled to a tax credit equal to the ACT paid in respect of any dividend received. The net cash dividend together with the tax credit is included in the individual's UK taxable income. The tax credit is available for offset against the individual's total income tax liability or, in appropriate cases, may be reclaimed in cash.

A UK resident corporate shareholder will not be liable to UK corporation tax on any dividend received.

Whether holders of shares in Sapphire who are resident in countries outside the UK are entitled to the tax credit in respect of dividends depends upon whether there is an appropriate provision granting the entitlement in any double tax treaty in existence between the UK and the relevant country.

Persons who are not UK resident should consult their professional advisers to determine what relief, if any, is available to them.

## Section 10 - Statutory and General Information

### 1. Share Capital

Sapphire was incorporated in England on 24th April, 1981 as a public limited company (registered number: 1558167) under the Companies Act 1948 to 1980 with an authorised share capital of £7,500,000 divided into 15,000,000 Ordinary Shares of 50p each.

(b) On incorporation, 2 Ordinary Shares of 50p each were allotted and issued to the subscribers for cash at a subscription price of £1 each.

(c) On 30th June, 1981, 10,000,000 Ordinary Shares of 50p each were allotted and issued to subscribers for cash at a subscription price of £1 each.

(d) On 30th June, 1983, Sapphire offered 3,336,336 new Ordinary Shares of 50p each at 93p per share by way of rights on the basis of 1 new Ordinary Share for every 3 Ordinary Shares held on 15th June, 1983. As a result of such issue, 3,336,336 new Ordinary Shares were allotted and issued to shareholders.

(e) On 23rd December, 1983, 569,000 Ordinary Shares of 50p each were allotted and issued as consideration for the acquisition of the whole of the issued share capital of Austin Friars Energy Limited and British American Oil Limited.

(f) At an Extraordinary General Meeting of Sapphire held on 12th June, 1985 the authorised share capital of Sapphire was increased to £15,000,000 by the creation of a further 15,000,000 Ordinary Shares of 50p each.

On the same date, 1,373,500 new Ordinary Shares of 50p each were issued to W. E. Johnson III (1), W. E. Johnson Jr. (2), R. S. Johnson (3), R. K. Dowd (4), J. L. Taylor Jr. (5) and Wilbro (6) under the terms of the contract referred to in paragraph 7 (a) below.

(g) On 25th June, 1985, 6,000,000 Ordinary Shares of 50p each were provisionally allotted to Williams de Broe at an agreed price of £2m, on the terms and conditions set out in the Offer for Sale Agreement referred to in paragraph 3 below.

(h) The Directors of Sapphire have been advised that Sapphire is not a close company within the provisions of the Income and Corporation Taxes Act 1970.

### 2. Subsidiaries

(a) SPH is a private company incorporated in England on 24th April, 1981 and has an authorised share capital of £10,000 divided into 10,000 shares of £1 each, all of which have been issued and are fully paid. SPH's principal activity is that of a holding company.

(b) SPH is a private company incorporated in the United States on 8th May, 1981 in the state of Delaware. SPH has an authorised capital of 20,000 \$1 shares of common stock, of which 15,110 have been issued at par and are fully paid.

(c) SPV is a private company incorporated in the United States on 30th April, 1981 under the Texas Business Corporation Act. SPV has an authorised capital of 5,000,000 \$1 shares of common stock, of which 1,500,000 have been issued at par and are fully paid.

(d) SEP is a private company incorporated in the United States on 30th April, 1981 under the Texas Business Corporation Act. SEP has an authorised capital of 5,000,000 \$1 shares of common stock, of which 300,000 have been issued at par and are fully paid.

(e) JMG is a private company incorporated in the United States on 10th May, 1985 under the Texas Business Corporation Act. JMG has an authorised capital of \$1,000,000 divided into 1,000,000 shares of common stock having no par value, of which 1,000 have been issued for \$1,679,525 and are fully paid.

### 3. Offer for Sale Agreement

By an Agreement dated 25th June, 1985 ("the Agreement") between (1) Sapphire (2) the Directors and (3) Williams de Broe, Williams de Broe agreed (conditionally upon the Council of The Stock Exchange granting permission to deal in the whole of the issued share capital of Sapphire in the United Securities Market by not later than 1st July, 1985) to subscribe or procure subscribers for 6,000,000 Ordinary Shares of 50p each at 150p per share ("the subscription price") and to offer such shares to the public at a price equal to the subscription price.

The Agreement provides, *inter alia*, that Sapphire shall pay the costs and expenses of, and incidental to, the increase in the authorised share capital of Sapphire for the purposes of the Offer for Sale, the application for permission to deal in the share capital of Sapphire in the United Securities Market, the accountancy, legal and other professional expenses relating to the Offer for Sale, the fees and expenses of the registrars, and resolving agency, the capital duty payable on allotment of the new shares and the costs of printing, advertising and circulating the Offer for Sale prospectus and all other related documents.

The total expenses payable by Sapphire are estimated to amount to £1,000,000 (exclusive of value added tax). Williams de Broe will receive a commission of 2 per cent. (plus value added tax) on the Offer for Sale price, out of which it will pay a sub-underwriting commission of 1 1/2 per cent. (plus value added tax where appropriate). In addition, Williams de Broe will receive a fee of £80,000 (plus value added tax).

### 4. Articles of Association

The Articles of Association of Sapphire provide, *inter alia*, as follows:

#### (a) Voting

- Subject to any terms as to voting upon which any shares may be issued, every holder who is present in person at a general meeting of Sapphire shall, on a show of hands, have one vote, and, on a poll, every member who is present in person or by proxy shall have one vote for every share of which he is the holder.
- No member shall be entitled to vote at any general meeting if any call or other sum presently payable by him in respect of those shares remains unpaid or if he has been duly served with a notice under Section 74 of the Companies Act 1981 and he is in default in supplying to Sapphire the information thereby requested within 28 days commencing on the date of such notice.

#### (b) Directors

- The Directors shall be paid out of the funds of Sapphire by way of remuneration for their services such sums as may be determined by Sapphire in general meeting, provided that the total amount of such remuneration (excluding any sums which a Director may be entitled under the terms of any contract with Sapphire) shall not exceed £70,000 per annum. Such remuneration shall be divided between the Directors in such proportion and manner as they may unanimously determine or in default of such determination, equally. A Director holding office for less than a year shall be entitled to a proportionate part of such remuneration. The Directors shall be entitled to be repaid all expenses incurred by them in connection with the business of Sapphire. Any Director who performs special services for Sapphire may be paid such extra remuneration as the Directors may determine.
- The Directors may (by establishment or maintenance of schemes or otherwise) pay or procure the payment of allowances, gratuities or other benefits to any person including past and present Directors of Sapphire or any of its subsidiaries.
- Save as provided below, a Director shall not vote in respect of any contract or arrangement or any other proposal whatsoever in which he has any material interest; and shall not be counted in the quorum at a meeting in relation to any resolution on which he is deemed from voting. Sapphire may by ordinary resolution suspend or relax such provisions to any extent or redify any transaction not duly authorised by reason of a contravention thereof.
- A Director shall, in the absence of some other material interest than is indicated below, be entitled to vote and be counted in the quorum in respect of any resolution concerning any of the following matters namely:—
  - any contract or arrangement for giving to such Director any security or indemnity in respect of money lent by him or obligations undertaken by him for the benefit of Sapphire;
  - any contract or arrangement for the giving by Sapphire of any security to a third party in respect of a debt or obligation of Sapphire which the Director has himself guaranteed or secured in whole or in part;
  - any contract or arrangement by a Director to subscribe for shares, debentures or other securities of Sapphire issued or to be issued pursuant to any offer or invitation to members or debenture holders of Sapphire or by such Director or to the public or any section thereof, or to underwrite any shares, debentures or other securities of Sapphire;
  - any contract or arrangement in which he is interested by virtue of his interest in shares or debentures or other securities of Sapphire or by reason of any other interest in or through Sapphire;
  - any contract or arrangement concerning any other company (not being a company in which the Director owns 1 per cent. or more) in which he is interested directly or indirectly whether as an officer, shareholder, creditor or otherwise;
- any proposal concerning the adoption, modification or operation of a superannuation fund or retirement, death or disability benefits scheme which relates both to Directors and employees of Sapphire or of any of its subsidiaries and does not accord to any Director as such any privilege or advantage not generally accorded to the employees to which such scheme or fund relates.
- any arrangement for the benefit of employees of Sapphire or of any of its subsidiaries under which the Director benefits in a similar manner as the employees and does not accord to any Director as such any privilege or advantage not generally accorded to the employees to whom such scheme or fund relates.

#### (c) Borrowing Powers

Save as provided below, the Directors may exercise all the powers of Sapphire to borrow money and to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures, debenture stock and other securities whether outright or as collateral security for any debt, liability or obligation of Sapphire or any third party. The Directors shall restrict the borrowings of Sapphire and, so far as it can by the exercise of all rights and powers it has in relation to its subsidiaries, those of its subsidiaries so as to ensure (as regards subsidiaries so far as by such exercise it can secure) that the aggregate amount for the time being remaining undischarged of all monies borrowed by the Group (exclusive of monies owing by one member of the Group to another member of the Group) shall not without the previous sanction of an ordinary resolution exceed an amount equal to the Adjusted Total of Capital and Reserves (as defined in the Articles of Association).

#### (d) Directors' and other interests

The interests of the Directors and their immediate families (all of which are beneficial) in the issued share capital of Sapphire immediately before the Offer for Sale which are required to be entered in the register maintained under the provision of the Companies Act 1985 are as follows:

|                   | Ordinary Shares of 50p each | Percentage of Ordinary Shares |
|-------------------|-----------------------------|-------------------------------|
| J. D. Webster     | 2,000                       | 0.013                         |
| A. W. F. Wright   | 23,162                      | 0.152                         |
| P. Pollard        | 5,586                       | 0.037                         |
| M. J. Taylor Jr.  | 68,675                      | 0.450                         |
| M. J. Henderson   | 1,333                       | 0.009                         |
| W. E. Johnson III | 216,025                     | 1.415                         |
| R. R. Latham      | 5,000                       | 0.033                         |
| S. Stevenson Jr.  | 20,000                      | 0.131                         |

Save as disclosed above, none of the Directors has any interest (beneficial or non-beneficial) in the issued share capital of Sapphire.

(b) The Directors have not been notified of any shareholdings which represent 5 per cent. or more of the issued share capital of Sapphire save for the following shareholders, all of whom are clients of Williams de Broe:

|   | Ordinary Shares of 50p each | Percentage of Ordinary Shares |
|---|-----------------------------|-------------------------------|
| Bank of Scotland London Nominees Limited                  | 906,499                     | 6.043                         |
| Nominees Limited  | 1,736,282                   | 11.575                        |
| Sun Life Assurance Society PLC                            | 800,000                     | 5.333                         |
| United Kingdom Temperance & General Provident Institution | 1,987,166                   | 13.248                        |

- Mr. P. Pollard is a director of and shareholder in Wetherell Edwards & Company, Limited which provides technical services to SPH.
- Mr. W. E. Johnson III was the General Partner of Johnson Management Group Ltd. Further to the arrangements described in paragraph 7(a) of this Section 10, Mr. Johnson received 206,025 Ordinary Shares in Sapphire.
- Mr. Johnson is also a partner in Johnson, Johnson & Johnson, a Texas professional corporation from which Sapphire rents office space and related facilities.
- Mr. A. W. F. Wright is a director of and shareholder in Williams de Broe which firm will receive in connection with the Offer for Sale a fee of £80,000 (exclusive of VAT) and a commission of 2 per cent. (plus VAT) of the value of the Shares at the Offer for Sale price.
- Williams de Broe has entered into an agreement with Sapphire dated 12th June, 1985, under which Williams de Broe provides Sapphire with office and related facilities.
- Mr. Wright is also a director of Wilbro, a subsidiary of Williams de Broe which was a partner in Johnson Management Group Ltd. Wilbro received 68,675 Ordinary Shares in Sapphire as part of the arrangements described in paragraph 7(a) of this Section 10.
- Mr. Wright was formerly a shareholder in Austin Friars Energy Limited which company was acquired by Sapphire on 23rd December, 1983 in consideration of the allotment of shares. Mr. Wright received 4,000 Ordinary Shares in Sapphire as a result of this transaction, which is referred to in paragraph 7(a) of this Section 10.
- Mr. J. L. Taylor Jr. was a partner in Johnson Management Group Ltd. Further to the arrangements referred to in paragraph 7(a) of this Section 10, he received 68,675 Ordinary Shares in Sapphire.
- Save as disclosed above, no Director has any interest in any transactions which are or were unusual in their nature or conditions or which are or were significant to the business of the Group and which were effected by any member of the Group since 30th June, 1983, or if effected prior to 30th June, 1983 remain in any way outstanding or unperformed. Save as disclosed above, no Director has or had any interest, direct or indirect, in the promotion of or in any assets which, within the two years preceding the date of this prospectus, have been or are proposed to be, acquired or disposed of, by, or leased to or by, any company in the Group.

### 5. Directors' remuneration and service agreements

The aggregate fees of the Directors of Sapphire for the year ended 31st December, 1984 were approximately £18,000 and it is anticipated that their fees for the financial year ending 31st December, 1985 will, under the arrangements in force at the date of this document, be approximately £20,500, and from 1st July, 1985, will be at the annual rate of £48,000.

Prior to 1st July, 1985, no emoluments (other than Director's fees) were paid to the Directors. It is anticipated that (other than Director's fees) the aggregate emoluments of the Directors for the financial year ending 31st December, 1985 will be £22,500, under the contract referred to at sub-paragraph (a) below and £40,000, under the contract referred to at sub-paragraph (b) below.

It is estimated that the aggregate annual fees and emoluments of the Directors will be £33,000 and \$90,000.

The Directors' service agreements may be summarised as follows:

- An agreement dated 12th June, 1985 between (1) Sapphire and (2) Mr. A. W. F. Wright under which Mr. Wright is employed as Managing Director of Sapphire, on a part-time basis, at a salary of £45,000 per annum (which may be increased following review by the Board of Directors from time to time) for an initial period of three years, from 12th June, 1985. This agreement may be determined by 6 months' written notice from either party.
- An agreement as of 1st July, 1985 between (1) SPH and (2) J. L. Taylor Jr. under which Mr. Taylor is employed as President and Chief Executive Officer of SPH at a salary of \$80,000 per annum for an initial period of one year from 1st July, 1985. This agreement may be determined by 90 days' written notice from either party.

Save as disclosed above, there are no other contracts of service between Sapphire or any of its Subsidiaries and any Director of Sapphire.

All Directors are entitled to reimbursement of reasonable expenses incurred on Sapphire's business.

### 7. Material Contracts

The following contracts, not being contracts in the ordinary course of business, have been entered into by Sapphire or its Subsidiaries within the two years immediately preceding the date of this prospectus and are or may be material:

- An agreement dated 1st October, 1983 between (1) SPH, (2) Johnson Management Group Ltd., (3) Johnson Energy International Inc., (4) William E. Johnson III and (5) Wilbro whereby the agreement constituting JOC dated 15th May, 1981 was amended in certain respects.
- An agreement dated 23rd December, 1983 between (1) Sapphire and (2) the vendors named therein under which Sapphire agreed to purchase the issued share capital of Austin Friars Energy Limited and British American Oil Limited for consideration of 1 new Ordinary Share of Sapphire for every 5 Ordinary Shares held of Austin Friars Energy Limited or of British American Oil Limited, amounting to an issue to the vendors of 569,000 new Ordinary Shares of 50p each in Sapphire.

- An agreement dated 14th May, 1985 (as amended by amendments dated 24th May, 1985 and 10th June, 1985) between (1) SPV (2) Paul V. Hoover and (3) Chaparral under which SPV agreed to purchase certain interests of Chaparral in the Four Well commitment, Lower Fort Union Formation, South Madden field, Fremont and Natrona Counties Wyoming, for a consideration of \$2,800,000, to be satisfied by a cash payment of \$1,800,000 ("the cash consideration") and the balance by the issue of Ordinary Shares in Sapphire ("the share consideration").

The cash consideration comprises sums of \$350,000, which has already been paid, \$750,000, which is payable within 21 days of the date of this prospectus, and a further sum of \$500,000 ("the conditional cash consideration"). The conditional cash consideration and the share consideration are each payable in two equal instalments on the satisfactory completion of each of the first two wells, which, together with two additional wells SPV is committed to drill, following the completion of the Offer for Sale. In the event it is determined that either of the first two wells will not achieve payout within 40 months of completion, SPV is released from its obligation to pay one half of both the conditional cash consideration and the share consideration. In the event that it is determined that both these wells will not achieve payout within 40 months of completion, the conditional cash consideration and the share consideration will cease to be payable. In the event that the Offer for Sale does not take place, the agreement is determinable at SPV's option.

- An agreement dated as of 31st May, 1985 whereby the agreement constituting JOC was restated and further amended.

- An agreement dated 20th May, 1985 between (1) Sapphire, (2) W. E. Johnson III, (3) W. E. Johnson Jr., (4) R. S. Johnson, (5) R. K. Dowd, (6) J. L. Taylor Jr., and (7) Wilbro under which Sapphire, in consideration of the acquisition of the issued share capital of JMG, agreed to issue 1,373,500 Ordinary Shares to the vendors.

- An agreement dated 1st July, 1982 as amended by a Supplemental Agreement dated 12th June, 1985 between (1) SPH and (2) Wetherell Edwards & Company, Limited, of which Mr. P. Pollard is a director, under which Wetherell Edwards & Company, Limited provides technical services to SPH for a fee of £30,000 per annum.
- The Offer for Sale Agreement referred to in paragraph 3 above.

### 8. Working Capital

The Directors of Sapphire are of the opinion that after taking into account the estimated net proceeds of the Offer for Sale and Sapphire's banking facilities, Sapphire will have sufficient working capital for its present requirements.

### 9. General

- No share or loan capital of Sapphire or of its Subsidiaries is under option or has been agreed conditionally to be put under option.
- Save for the Ordinary Shares to be issued pursuant to the contract referred to in sub-paragraph (c) of paragraph 7 above, all the issued share capital of Sapphire which has been issued pursuant to the contracts referred to at sub-paragraphs (b) and (e) of paragraph 7 and by way of the rights issue referred to in sub-paragraph (d) of paragraph 1 of this Section 10, no share or loan capital of Sapphire or of its Subsidiaries has, within the two years immediately preceding the date hereof, been issued, agreed to be issued or is now proposed to be issued either for cash or otherwise.
- Save as disclosed herein, within the last two years no commissions, discounts, brokerages or other special terms have been granted by Sapphire or any of its Subsidiaries in connection with the sale or sale of any part of their respective shares or loan capital.
- With the exception of the Ordinary Shares to be issued in the Offer for Sale, and pursuant to the agreement referred to in sub-paragraph (c) of paragraph 7 of this Section 10 no material issue of shares (other than shares first offered to shareholders *pro rata* to existing shareholders) will be made within one year of the date of this document without the prior approval of Sapphire in General Meeting. No issue will be made without the prior approval of the Directors of Sapphire or the nature of Sapphire's business without the prior approval of Sapphire in General Meeting.
- Neither Sapphire nor any of its Subsidiaries is involved in any legal or arbitration proceedings which may have or have had during the twelve months preceding the date of this prospectus a significant effect on the financial position of the Sapphire Group nor, so far as the Directors are aware, are any such proceedings pending or threatened against any of the Sapphire Group.
- Arthur Andersen & Co., Borgeson and Gray have given, and have not withdrawn, their written consents to the issue of this prospectus and to the inclusion therein of their respective reports and the references thereto in the form and context in which they appear.
- Save as disclosed herein, there has been no material change in the financial or trading position of Sapphire since 31st December, 1984 the date to which the latest audited accounts of Sapphire were made up.
- The minimum amount which in the opinion of the Directors of Sapphire must be raised by the issue of the Ordinary Shares now being offered is £2m which, in relation to the matters specified in paragraph 4(a) of part 1 of the Fourth Schedule to the Companies Act 1984, is made up as follows:
  - Tangible and intangible assets — £3.0 million
  - Preliminary expenses — £1.0 million
  - Repayments — Nil
  - Working Capital — £2.0 million
- In addition an amount of £5.4 million is to be provided from operating cash surpluses and available bank borrowing facilities.
- For the purposes of section 50 (1) of the Companies Act 1948 the application lists in respect of the Ordinary Shares of 50p each which are the subject of the Offer for Sale will open at 10.00 a.m. Tuesday 2nd July, 1985 and may be closed at any time thereafter.
- Unless otherwise stated, all currency equivalents shown in this prospectus are based on an exchange rate of \$1.25 to £1 Sterling.

### 10. US Investors

The Ordinary Shares which are the subject of the Offer for Sale have not been and will not be registered under the Securities Act of 1933 of the US. Accordingly the shares may not be offered or sold directly or indirectly in the US, or to the benefit of any US person, or to any person purchasing any of the shares for reselling or resale, directly or indirectly, in the US or to, or for the benefit of any US person, as part of the distribution of such shares. Furthermore, no such shares may be offered or sold in the US or to or for the benefit of, any US person prior to the date 90 days after the completion of the distribution of such shares, as determined by Williams de Broe. Notwithstanding the expiration of such 90 day period, any offers or sales of such shares in the US or to or for the benefit of, any US person must be made pursuant to the registration requirements of the Securities Act of 1933 of the US or an exemption therefrom.

Each applicant will represent by the delivery of a duly signed application form that he is not a US person and is not purchasing any of the shares for the benefit of any US person and that he has acted and will act in compliance with the requirements of the foregoing paragraph. For further details, see the application form set out at the end of this prospectus.

### 11. Documents available for inspection

Copies of the following documents may be inspected at the offices of Williams de Broe Hill Chaplin & Company Limited, Pinnars Hall, Austin Friars, London EC2P 2HS during usual business hours on any weekday (Saturdays and public holidays excepted) until 12th July, 1985:

- The Memorandum and Articles of Association of Sapphire;
- The audited accounts for the three years ended 31st December, 1984;
- The Accounts' Report by Arthur Andersen & Co.;
- The Petroleum Consultants' Report;
- The material contracts referred to in paragraph 7 above;
- The Service Agreements referred to in paragraph 6 above;
- The written consents referred to in paragraph 9 (d) above.

## Section 11 - Procedure for Application

- Applications must be made on the Application Form set out at the end of this document and must be for a minimum of 100 shares and thereafter for the following multiples of shares: in multiples of 100 shares between 100 and 1,000 shares; in multiples of 100 shares between 1,000 shares and 10,000 shares; in multiples of 1,000 shares between 10,000 shares and 25,000 shares and in multiples of 5,000 shares thereafter.
- Applications must be lodged with or posted to National Westminster Bank PLC, New Issues Department, P.O. Box 78, 2 Princes Street, London EC2P 2HS, on or before 10.00 a.m. on Tuesday, 2nd July, 1985 (being the time of the opening of the application lists).
- Each application must be accompanied by a separate cheque or bankers' draft, drawn in Sterling on a branch in England, Scotland, Wales, Northern Ireland, the Channel Islands or the Isle of Man of a bank which is either a member of the London or Scottish Clearing Houses or which has arranged for its cheques and bankers' drafts to be cleared through the facilities provided for the members of those Clearing Houses (and which must bear the appropriate sorting code number in the top right hand

corner), made payable to "National Westminster Bank PLC" and crossed "Not Negotiable Sapphire" representing payment in full at the application price. Due completion and delivery of an Application Form accompanied by a cheque will constitute an undertaking that the cheque will be honoured on first presentation: attention is drawn to the declaration in the Application Form to that effect.

The right is reserved to present all cheques and bankers' drafts for payment and to retain Letters of Acceptance and surplus application monies pending clearance of all applicants' cheques. The right is also reserved to reject any application in whole or in part. Multiple or rejected multiple applications are liable to be rejected. Applications will be irrevocable until after 10th July, 1985. Photostat copies of Application Forms will not be accepted.

No person receiving a copy of this document or an Application Form in any territory other than the UK may treat the same as constituting an invitation or offer to him, nor should he in any event use such Form unless in the relevant territory such an invitation or offer could lawfully be made to him or such Form could lawfully be used without contravention of any applicable registration or other legal requirements. Any person outside the UK wishing to make an application hereunder should satisfy himself as to observance of the laws of any relevant territory, including obtaining any requisite governmental or other consents or observing any other requisite formalities, including the payment of any issue, transfer or other taxes required to be paid in such territory.

The Application Form contains certain confirmation, representations, warranties and undertakings in respect of US securities laws which must be made by the persons applying for shares.

Williams de Broe will have discretion in deciding the basis of allocation. In so deciding, Williams de Broe will have regard to the need to establish a satisfactory market in the shares, for which purpose a reasonable number of shareholders is required.

The basis of allocation will be announced on or as soon as possible after Wednesday, 3rd July, 1985. Renounceable Letters of Acceptance are expected to be despatched on 8th July, 1985. Dealings are expected to commence on 9th July, 1985. Successful applicants will receive temporary documents of title, in the form of renounceable Letters of Acceptance, for the number of Ordinary Shares allocated to them. A successful applicant may, free of stamp duty, sell or otherwise dispose of all or some of the Ordinary Shares allocated to him by completion of the form of renunciation on his Letter of Acceptance and delivery of the Letter to the transferee. Upon renunciation, such a Letter becomes a negotiable bearer document. Detailed instructions will be set out in the Letters of Acceptance but a successful applicant who is in any doubt about his position should consult his bank manager, stockbroker, accountant, solicitor or other professional adviser. Letters of Acceptance will be renounceable until 3.00 p.m. on 8th August, 1985; thereafter an instrument of transfer must be used and stamp duty will be payable on any sale or other disposal of Ordinary Shares.

The Shares now being offered for sale will be registered free of stamp duty and registration fees in the names of applicants or persons in whose favour Letters of Acceptance have been renounced provided that, in cases of renunciation, Letters of Acceptance (duly completed in accordance with the instructions contained therein) are lodged for registration not later than 3.00 p.m. on 8th August, 1985. Share certificates are expected to be posted on 8th September, 1985.

All documents, cheques and bankers' drafts will be sent at the risk of the persons entitled thereto.

In order to obtain registration of shares covered by Letters of Acceptance which have been renounced, the persons in whose favour such Letters of Acceptance have been renounced will be required to make certain confirmations, representations, warranties and undertakings in respect of US securities laws comparable to those contained in the Application Form.

Acceptance of applications is conditional on permission being granted by the Council of The Stock Exchange for the whole of the Ordinary Shares of Sapphire, issued and now being offered for sale to be dealt in on the Unlisted Securities Market (subject only to posting renounceable Letters of Acceptance) not later than 1st July, 1985. Application monies will be returned (without interest) if such Ordinary Shares capital is not so admitted and, in the meantime, will be held by National Westminster Bank PLC in a separate account for Ordinary Shares.

If any application is not accepted, or is accepted for fewer shares than the number applied for, the application monies or the balance of the amount paid on application (as the case may be) will be returned (without interest) by crossed cheque in favour of the applicant(s) through the post at the risk of the applicant(s).

Copies of this document with Application Forms may be obtained between 27th June, 1985 and 2nd July, 1985 from:

Williams de Broe Hill Chaplin & Company Limited,  
Pinnars Hall,  
Austin Friars,  
London,  
EC2P 2HS  
National Westminster Bank PLC,  
New Issues Department,  
P.O. Box 78,  
2 Princes Street,  
London,  
EC2P 2BD  
and National Westminster Bank PLC at the following addresses:  
14 Rhyndwood Square,  
Glasgow G2 4AQ  
9 Park Row,  
Leeds LS1 1QS  
Colmore Centre,  
10 Colmore Row,  
Birmingham B3 3NS  
80 George Street,  
Edinburgh EH2 3DZ  
55 King Street,  
Manchester M60 2DB

Dated 27th June, 1985

## Sapphire Petroleum P.L.C.

(Registered in England under the Companies Acts 1948 to 1980 No. 1558167)

### Offer for Sale

by

### WILLIAMS de BROE HILL CHAPLIN & COMPANY LIMITED

of

### 6,000,000 Ordinary Shares of 50p each at 150p per share, payable

in full on application

The application lists will open on 2nd July, 1985 and may be closed at any time thereafter.

APPLICATIONS MUST BE RECEIVED BY 10 a.m. ON TUESDAY, 2ND JULY, 1985.

Applicants are strongly advised either to deliver this Application Form by hand or to use first class post and allow at least two days for delivery.

To: WILLIAMS de BROE HILL CHAPLIN & COMPANY LIMITED

Applicants must be for a minimum of 100 shares and in the following multiples:

- not more than 1,000 shares: in multiples of 100 shares
- between 1,000 shares and 10,000 shares: in multiples of 100 shares
- between 10,000 shares and 25,000 shares: in multiples of 1,000 shares
- more than 25,000 shares: in multiples of 5,000 shares

I/we enclose a cheque/bankers' draft payable to National Westminster Bank PLC for the above mentioned sum, being the full amount payable in respect of the above stated number of Ordinary Shares of 50p each of Sapphire Petroleum P.L.C. ("the Company") at 150p per share, and I/we offer to purchase that number of Ordinary Shares and I/we agree to accept the same or any smaller number in respect of which this application may be accepted upon the terms of the prospectus dated 27th June, 1985.

I/we hereby authorise you to send a renounceable letter of acceptance in respect of the said Ordinary Shares, and/or a cheque for any monies refundable, by post at any time, to the address given in the box below and to procure my name(s) to be registered in the Register of Members of the Company as holder(s) of the said Ordinary Shares, or of those of them which are not so registered.

In consideration of your agreeing to consider applications upon the terms and subject to the conditions of the said prospectus, I/we agree that this application shall be irrevocable until 10th July, 1985 and that I/we shall be bound by the conditions of the said prospectus and by the terms of the contract referred to in paragraph 7(c) of the prospectus, and I/we agree to accept the same or any smaller number in respect of which this application may be accepted upon the terms of the prospectus dated 27th June, 1985.

I/we understand that the completion and delivery of this Application Form accompanied by a cheque/bankers' draft will constitute a warranty that the cheque will be honoured on first presentation and that I/we shall be bound by the conditions of the said prospectus and by the terms of the contract referred to in paragraph 7(c) of the prospectus, and I/we agree to accept the same or any smaller number in respect of which this application may be accepted upon the terms of the prospectus dated 27th June, 1



## THE ARTS

## Arts Week

F | S | Su | M | Tu | W | Th  
28 | 29 | 30 | 1 | 2 | 3 | 4

## Opera and Ballet

## PARIS

**Le Barbier de Séville**, conducted by Hans Graf, Almaviva sung by Dano Raffanti/Noel Velasco, Rosine by Suzanne Mentzer, Figaro by Patrick Rafferty and Basilio by Ruggiero Ramondini. Opéra Comique (286 0611)

**Robert le Diable** alternates with *Soirée de Ballets* and with *Tosca*. Conducted by James Conlon with Raina Kabaivanska in the title role and Giacomo Aragall in that of Cavaradossi. Paris Opéra (286 8022).

## VIENNA

**Staatoper** (53 24/26 55): Turandot conducted by Slatkin with Dimitrova Front and the Vienna Boys Choir; Cavalleria Rusticana and Der Freischütz; Lehigh.

**Volkstheater** (53 24/26 57): Count of Luxembourg conducted by Artimiller; Vienna Blood; Der Wildschütz conducted by Richter.

## WEST GERMANY

Berlin, Deutsche Oper: Così fan tutte, produced by Götz Friedrich, brings together Angela Denning, Anne-Sophie von Otter and Keith Lewis. Simon Boccanegra, sung in Italian, has Ingar Witzell in the title role for the first time. (343 81)

Hamburg, Staatoper: Die Entführung aus dem Serail is steered to triumph by Kurt Moll as Osmin. Boris Godunov is offered in a concert version with Gabriele Fritzsche and Kurt Moll as Iosif. La Traviata features Francisco Araiza and Julia Varady. Zar und Zimmermann has fine interpretations by Jutta-Renate Ilhoff and Toni Blankenheim. (351 51).

Frankfurt, Oper: Premiering this month is Der Rosenkavalier, produced by Philippe Sireuil. In the main parts are Gail Gilmore, Helena Dörmann and Manfred Schenk. Tosca, conducted by Giuseppe Patana, has Maria Stalder in the title role. Also Der Zigeunerbaron, Aida and Hoffmanns Erzählungen. (256 21).

## LONDON

**Royal Opera, Covent Garden**: In the new production of Ariadne auf Naxos, Jesse Norman and Rosalind Plowright alternate in the title role, and Kathleen Battle and Celina Lindley in that of Zerkine; Jeffrey Tate conducts. The glittering cast for the new production of Rossini's La donna del lago includes Marilyn Horne and Frederica von Stade. (240 1000).

**English National Opera, Coliseum**: The last two performances of the current season - the new productions of Philip Glass's Akhnaten and Michael Tippett's Midsummer Marriage. (336 5101).

**Royal Ballet** moves to a tent in Battersea Park for two weeks with a reasonably-priced performance every night.

**Festival Ballet** opens at the Coliseum on Tuesday with a new staging of Coppélia which plays all week. (336 5101).

## ITALY

Spoleto, Teatro Regio: La Fanciulla del West produced by Bruce Beresford, the Australian film director, tackling opera for the first time. Costumes and scenery by Ken Adam (involved with the most famous of the Bond films). Spoleto Festival Orchestra is conducted by Christian Bades (with the Westminster Choir). 67 85 44 (Rome) 4 02 85 (Spoleto).

Venice, Teatro Olimpico: Mozart's Il re Pastore conducted by Gabriele Ferro and produced by Pierluigi Pizzi (who also designed scenery and costumes). In the cast, Lucia Aliberti, Katerina Ericksen, Brigitte Fouchier, Yvonne Yamaji and Jorio Zennaro. (370 23).

## MILAN

**Central Court of Milan University - Ca' Granda** via Festa del Perdono: I Promessi Sposi. A two-act ballet by Roberto Azon based on Alessandro Manzoni's novel, with choreography by Mario Pisanò and scenery by Luisa Spinelli. In the cast, Luciana Savignano, Oriella Dorisella and Francesco Sedano, with the La Scala corps de ballet. Every Day except Sunday. (80 120).

Naples, Teatro di San Carlo: La Sonnambula with Edita Gruberova (alternating with Maria Dragoni) Antonio Savastano, Simone Alaimo and Kate Gambiacci. (41 68 66).

Teatro alla Scala, Andrea Center by Umberto Giordano, conducted by Riccardo Chailly and produced by Lamberto Puggelli with Silvana Mazzoni, Eva Marton and Jose Carreras; Don Pasquale conducted by Claudio Abbado with Luciana Serra, Gesto Bruscanini, Ernesto Gavazzi and Alfredo Kraus. 80 91 26.

## SPAIN

Madrid, Teatro de la Zarzuela. An all-time rare appearance in his own country of top Spanish tenor Plácido Domingo in Verdi's Otello, conducted by Luis Antonio García Navarrete, artistic director Piero Puggioni (Wed). (221 6510).

## Theatre

## LONDON

**Notes Off (Savoy)**: The funniest play for years in London, now with an improved third act. Michael Blake more's brilliant direction of backstage shenanigans on tour with a third-rate farce is a key factor. (339 8988).

**Starlight Express (Apollo Victoria)**: Andrew Lloyd Webber's rollercoasting folly has 10 minutes of Spielberg movie magic, an exciting first half and a dwindling reliance on indecipherable raving around. Disneyland, Star Wars and Cats are all influences. Pastiche score nods towards rock, country and hot gospel. No child is known to have asked for his money back. (534 5184).

**On Your Toes (Palace)**: Rodgers and Hart's 1930 musical is a genuine tonic. American jazz dance collides with the Ballets Russes. Gems include There's a Small Hotel, Glad to be Unhappy and the Balanchine ballet for Slaughter on Tenth Avenue. (437 8834).

**Mad Street (Drury Lane)**: No British equivalent has been found for New York's Jerry Orbach, but David Merrick's top-dancing extravaganza has been rapturously received. American Clare Leach is a real find as Peggy Sawyer, and Margaret Courtenay has a solid day (536 5106).

**Me and My Girl (Adelphi)**: Sleek, efficient and enjoyable revival of Britain's highest war-time musical hit with Robert Lindsay in the Lepino Lane role emerging as the best new musical star since Michael Crawford. (336 7811).

**The Government Inspector (Olivier)**: Striking but unfunny revival with under-equipped TV comic Sir May all playing the part as a shrieking nose-picker. Richard Byrne's production for the NT lacks either comic talent or true delirium but, with John Gielgud's imposing design of bureaucratic bunnies, the show has a

sort of monumental stinkiness as well as nightmarish tedium. New translation by Adrian Mitchell. (228 2282).

**Bertram (Victoria Palace)**: Michael Crawford returns to London with his breath-taking performance as the circus impresario, adding one or two new tricks in a likeable mélange of a musical. (834 1317, credit cards 528 4735).

**Jumpers (Aldwych)**: Confident almost sober revival of Tom Stoppard's glittering comedy of love, murder and linguistic mayhem among the logical positivists, with Paul Eddington a more earth bound George Moore. It also was Michael Hordern, Felicity Kendal delightful as his retired musical comedy wife. Peter Wood directs. (336 6404, credit cards 379 8233).

**Richard III (Barbican)**: Last year's Stratford-upon-Avon production with Anthony Sher demagogically exciting as Richard in the RSC revival by Bill Alexander. Plays in repertory with Roger Rees as Hamlet and Kenneth Branagh as Henry V. All worth seeing. (228 7735, credit cards 536 8881).

**Parade (Olivier)**: Entertaining epic new play by David Hare and Howard Brenton for the National Theatre in which an unscrupulous South African magnate acquires Britain's most prestigious newspaper. A Janusian satire on the grand scale with an irresistible performance by Anthony Hopkins as the colonial who penetrates the Establishment while a nation dithers. (228 2322).

## NEW YORK

**Cats (Winter Garden)**: Still a sellout. Trevor Nunn's production of T. S. Eliot's children's poetry set to trendy music is visually startling and choreographically felina, but classic only in the sense of a rather staid and overblown idea of theatricality. (238 5262).

**Mad Street (Majestic)**: An immediate celebration of the heyday of Broad-

way in the '30s incorporates gems from the original film like Shuffle Off to Buffalo with the appropriately brash and leggy hooding by a large chorus line. (377 9220).

**Dreamgirls (Imperial)**: Michael Bennett's latest musical has now become a stalwart Broadway presence despite the forced effort to recreate the career of a 1960s female pop group, à la Supremes, without the quality of their music. (239 6200).

**Righteous Beasts (Minskoff)**: 40th St. The first installment of Neil Simon's mix of memories and jokes focuses on a Depression-era Jewish household where young Eugene falls awkwardly in love with his cousin. (221 1211).

**A Chorus Line (Shubert)**: The longest-running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (239 6200).

**Seaway (The Park with George)**: Inspired by the Seurat painting, Stephen Sondheim fashions a musical with dots and dashes of song that and too soon but work well with Tony Stralger's pretty set and James Lapine's book which changes gears in the second act. (239 6262).

## WASHINGTON

**Count of Monte Cristo (Eisenhower)**: The second production of Peter Sellers' new American National Theatre company is the James O'Neill version of this swashbuckler. (254 3679).

## CHICAGO

**Six Characters in Search of an Author (Goodman)**: Robert Brustein brings his acclaimed American Repertory Theatre to Chicago for this first of a series of productions. (443 3800).

## Music

## ITALY

Venice, Piazza del Signori: Mahler's symphony no. 9 conducted by Claudio Abbado with the Orchestra of La Fenice (Tue). (370 23).

Spoleto, Teatro Carlo Melisso: Midday concert every day until end of festival on July 14. (39 200 or 40 265).

Roma, Chiesa di S. Anselmo: Bach organ recital by Gaetano Parrilli (Mon). Basilica di S. Sabina: Piano recital by Gabriella Cosentino, Scarlatti, Schubert, Liszt and Chopin (Wed). (63 16 90).

## NETHERLANDS

Amsterdam, Concertgebouw: Pierre-Alain Volodine performs with the Amsterdam Philharmonic conducted by Mihail Tang. Mozart, Liszt, Stravinsky (Tue). (71 83 45).

## VIENNA

Vienne, Symphonie Orchestra conducted by György Ligeti with Ernst Kovacic violin. Handel, Schütz and Beethoven. (Tue). Ardenhof.

Vienne, Symphonie Orchestra conducted by Ellyrud Kivaki with Walter Kilen, piano. Handel, Mozart and Beethoven. (Thur). Ardenhof.

## SPAIN

Granada, Patio de los Arrayanes, Alhambra Palace. Soprano Jesse Norman in songs by Brahms, Wagner, Ravel and Richard Strauss to Richard Nunn's piano accompaniment. Also in Granada Music Festival, at Auditorio Manuel de Falla: Piano concert by Hugh Timoney: Beethoven, Albeniz, Scriabin, Chopin, Liszt (Thurs). Luis Claret (cello). Bach Suites (Wed). (223 920).

## NEW YORK

**The Kings Singers (Tanglewood)**: Fugues, madrigals and Jerome Kern songs in the grandiose repertoire of the Kings Singers. (413 857 1040) (Wed). Lenox, Mass.

## WASHINGTON

National Symphony, conductor, Leonard Bernstein. Traditional free concert on the grounds of the Capitol. Mixed programme includes Bernstein: An American Songbook, played by a sextet led by the composer.

## CHICAGO

Revista Festival (Highland Park): The 50th anniversary season includes a variety of programmes and performers starting its opening week with the LaSalle Quartet in a programme honouring the centenary of Alban Berg's birth. (728 4645).

## HOLLYWOOD

Hollywood Bowl: Oregon Bach Festival and Chorus conducted by Helmuth Rilling. Rach 3. Matthew Passion (Tue). Bach 8 Minor Mass (Wed).

## LONDON

Nathan Milstein, violin and Georges Flidermacher, piano. Bach, Brahms, Paganini and others. Royal Festival Hall (Mon). (228 3101).

London Symphony Orchestra conducted by Neville Martinov with John Brownning, piano. Verdi, Mozart and Rachmaninov. Barbican Hall (Tue). (336 8801).

## MUSICAL TOURS

The 22nd festival in the Grange de Mousley near Tours. June 28-July 7, is a music lover's joy. This year the programme is given over to 28th century composers including Ligeti, Webern, Britten, Schellberg, Bartok and Berg. Pierre Boulez will conduct Ensemble Intercontemporain and Ensemble Orchestral de Paris. Swissair's Richter appears with other soloists and in a piano recital.

The apothecary will be an exceptional Boulez-Richter concert dedicated to Stravinsky. Hotel de Ville, Tours. (47) 61 61 24, Ext 744 or 745.

Maggie Hamacher

## BRITISH COAL. CUTTING COSTS. MAKING CHEESE

Express Dairy's North Devon factory produces over 12,000 tonnes of Cheddar cheese a year.

In a recent energy saving exercise the company decided that the only way to make significant cuts in fuel costs was to convert from oil to coal. So they installed a coal fired package of an automatic boiler with integrated coal and ash handling and storage systems. The boiler is a twin furnace GWB Ashmaster with tipping grate for automatic ash removal. The plant operates under the control of a micro-processor. On a site where cleanliness and the environment are of major importance, coal delivery is by pneumatic vehicle and all handling is in totally enclosed systems.

Tony Pennell, Engineering Manager at Express Dairy comments: "The major criteria for conversion were economics, good payback, cleanliness and automatic operation. These criteria have been met and we are saving £600 a day on fuel costs. It's been so successful we've now ordered a further six of these coal fired boilers".

What makes sense for companies like the Express Dairy, John Smith's, ICI, and British Aerospace also makes sense for the whole of British industry.

## The cheapest source of energy.

British coal costs less than other fuels. And the NCB intends to make sure coal prices remain competitive.

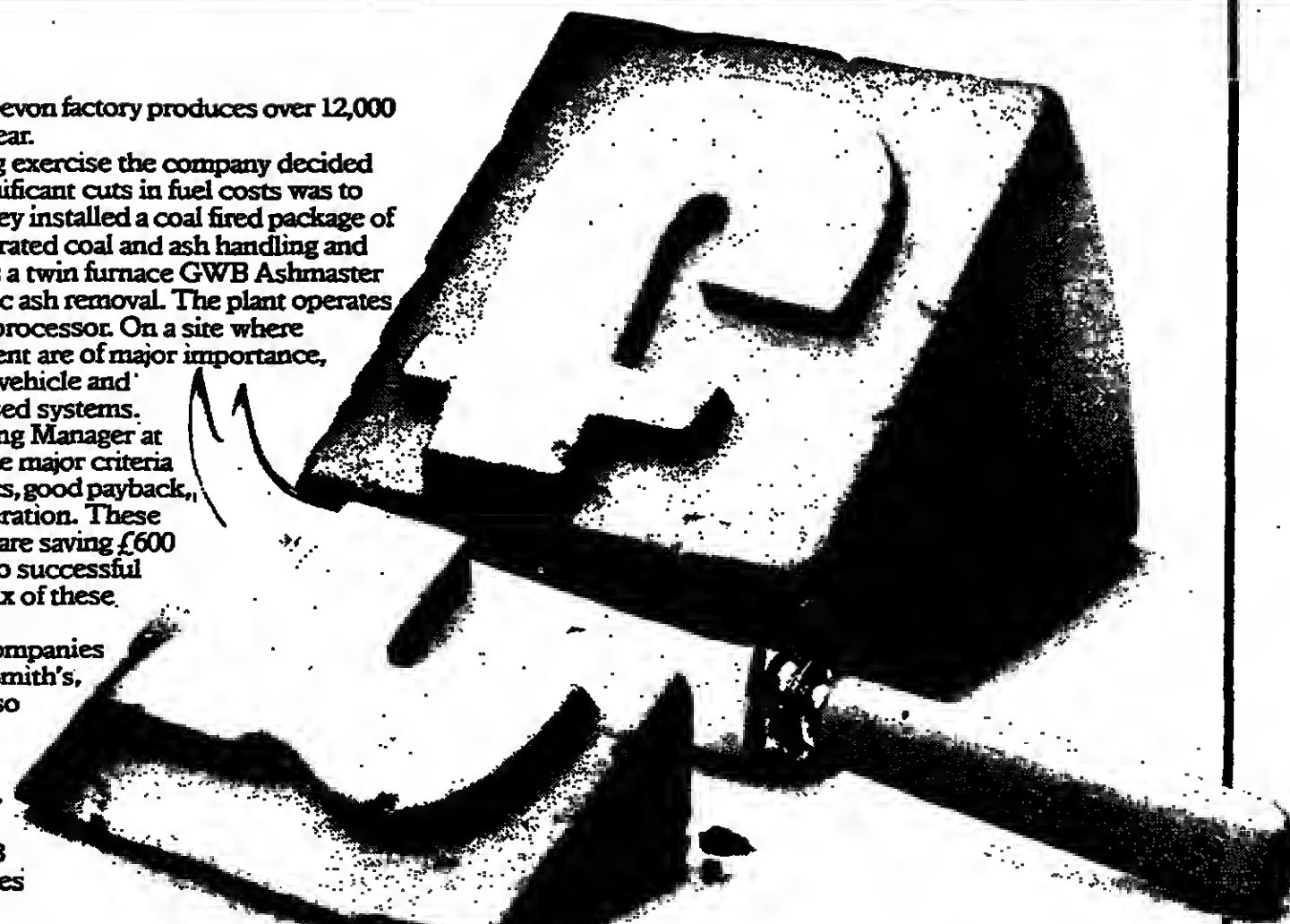
## World-beating technology.

British coal leads the world in boiler technology, combustion techniques and methods of coal and ash handling. In today's installations coal and ash are seldom seen and rarely touched by hand. To maintain supplies there is a nationwide network of coal distributors who are strategically situated to give advice and provide an efficient service to industry.

## Real help with conversion costs.

There's a Government Grant Scheme to help companies who want to convert to coal. This, with the backing of European loans, creates a really attractive financial package.

A final word from Malcolm Edwards, Commercial Director of the NCB: "We believe British coal can save energy costs for your company. Let us talk — we can do good business together".



For further information please fill in the coupon and send it to the Industrial Branch, Marketing Department, National Coal Board, Hobart House, Grosvenor Place, London SW1X 7AE.

Name \_\_\_\_\_  
Company \_\_\_\_\_  
Address \_\_\_\_\_

**NCB** THERE'S NEVER BEEN A BETTER TIME TO CONVERT TO BRITISH COAL.

FTCS/6/85

## Exhibitions

## NEW YORK

**Metropolitan Museum**: 30 objects from the period between the 1851 Crystal Palace Exhibition to the 1900 World Fair in Paris demonstrate the show's theme of Revivals and Expositions in European decorative arts. Ends Sept 5.

## WASHINGTON

**National Gallery, Ancient Art of the American Woodland Indians** includes 151 pieces covering 5,000 years of sculpture, ceramics, copper and shell objects of the native Americans who lived in what is now the eastern half of the U.S. Ends Aug 4.

**National Gallery (West Wing)**: 26 old master paintings from the Dutch Picture Gallery are exhibited under the title Collection for a King, including works by Rembrandt, Van Dyck, Canaletto and Gainsborough. Ends Sept 2.

## CHICAGO

**Art Institute**: Though Edouard Manet made sketches primarily to reproduce and publicize his paintings, he developed a unique style as shown in the 27 sketches in this special exhibit of more than a third of his total output of 75 etchings. Ends Sept 2.

**Art Institute**: With 200 of Marc Chagall's works on paper dating from 1907 to 1963, this show from the Centre Pompidou in Paris makes a good study of Chagall the draftsman. Ends July 7.

## BRUSSELS

**Hotel Metropole** is celebrating its 90th year and in its splendid *fin de siècle* public areas, worth a visit in themselves, they are exhibiting glass and objects d'art from the Belle Époque to Art Nouveau including works by Wouters, Gallé and Daum. Also on show are a collection of illustrated menus including a Press Banquet in 1883, Congo in 1888 and Sarah Bernhardt in 1906. Ends July 20.

**Opera costumes from 1829 to the present** including Zeffirelli's *Rigoletto*, Boquet's *Traviata* and Karl Ernst Hermann's *Clayton* for a King. Musée de Costumes et Dentelle. Until November.

**Tony Cragg** - a major exhibition of one of Britain's contemporary sculptors. Palais des Beaux Arts. Ends July 28.

## WEST GERMANY

Munich, Staatsgalerie: modern German Kunst. Prinzregententheater. 1: German Art since 1900, 200 paintings, prints and drawings by 13 artists from the private collection of the German Prince Franz of Bavaria. Among them: Bayre, Richter and Kiefer. Ends Sept 15.

Baden, Achlysheim-Gesellschaft, Rathaus am Deich: To honour the late Franz Radtke's 90th birthday anniversary of his birth. Ends July 20.

Bonn, Rheinisches Landesmuseum, Coblenzstr. 14 5300. Fairy-tales, Myths, and Monsters. 43 works by 22 European artists in German. Messager, Paladino, Schmalzer, Tafelberg and Wawrin. Ends July 28.

Berlin, Gropius Bau, Stresemannstr. 118 Berlin 61: Treasures of the Forbidden Cities. Titled to coincide with this year's Berlin Horizon 85, the Peking Palace museum is coming to Europe for the first time, with roughly 120 works covering 2,000 years of Chinese history. The exhibition in Berlin includes gold and Jade, paintings, porcelain, musical instruments and calligraphy. Ends August 18.

Cologne, Schützen Museum Cäcilienstrasse 28: Gothic Art from Bohemia, 60 masterpieces from between 14th and 18th centuries. Loan from the National Gallery, Prague. Ends July 21.

Düsseldorf, Städtische Kunsthalle Grabbeplatz 4: A retrospective of Ruppert's Giger with 100 paintings from between 1945 and 1984. Ends July 21.

## VIENNA

**Vienna 1870-1930: Dream and Reality**: The greatest names of the Viennese fin-de-siècle - Klimt, Otto Wagner, Schiele, Kokoschka, Aldolf Loos, Josef Hoffmann - in a dazzling display of Jugendstil creative genius. The attempt to integrate the artistic achievements of this era with philosophical developments (notably Wittgenstein but also Freud) and political transformations (the emergence of municipal socialism on the ruins of Baroque splendour) is ambitious and only partly successful. The complex tension between autocratic and censorious reality on the one hand and the illusions or fantasies of individual artists on the other is hinted at but not fully explored. A high point of the show is a reconstruction of Hoffmann's room at the secession exhibition of 1902. Here, triumphantly restored, is Klimt's fifty-foot Beethoven frieze depicting humanity's progress through suffering to joy on the theme of the Ninth Symphony. Displayed exactly as intended, this alone is worth a special visit. Kunsthofhaus. Ends October 6.

## SWITZERLAND

Martigny, Fondation Pierre Gassendi: 200 Klee paintings in the striking modern gallery built over the Roman ruins of the city of Octodurum. Ends Nov 3. (020/23 39 78).

## ITALY

Venice, Palazzo Fortuny: Toys for the science-fiction era, showing how vastly more sophisticated robots have become since first produced in the 1950s. Ends July 14.

Florence, Museo Archeologico (Piazza SS. Annunziata) - The Etruscan Civilization: This is the first of a long series of exhibitions marking the Year of the Etruscans, and shows the results of the most recent research into the Etruscan world. A useful history of this civilization's birth, development and decline. Ends Oct 20.

Roma, Appartamento Barbero - Palazzo Venezia: "Eleanora Duse e il suo mito" (The Woman and the Myth) Photographs, theatre programmes, reviews and clothes (including the Crinoline Fortuny fabric) worn by La Divina. Ends July 7.

## SPAIN

Madrid: Palacio de Cristal and Palacio Velázquez: Porcupine del Bello: Spanish sculpture 1900-36. Sculpture and drawings by Picasso, Miro and contemporaries. The selection includes two works featured in the 1937 Paris exhibition on the subject of the Spanish Civil War, and now shown in Spain for the first time: Picasso's *Femme du Vase* and Julio Gonzalez's *La Montserrat*. Ends July 30. (214777).

Madrid: Sala de la Caixa de Barcelona, Velázquez 83: Salvador Dalí, a retrospective of his work as an author and illustrator of books, with 300 engravings and lithographs and 200 drawings. Ends July 16. (431 2017).

Madrid, Museo del Prado: Raphael in Spain. An exhibition to commemorate the 500th anniversary of the painter's death, including his masterpiece *The Cardinal* and others highlighting his influence on Spanish artists. Closed Mon. Ends July 15.

Barcelona, Fundació Joan Miró: Works by 45 Russian avant-garde artists from the Ludwig collections in Cologne, covering the period from 1910 to 1930 and including the most representative masters of post-impressionism, constructivism and surrealism. Ends July 7.

## LONDON

**The Tate Gallery**: Francis Bacon, Britain's greatest living painter, has accorded the rare distinction at the age of 70 of a second full retrospective exhibition at the Tate, 20 years after his reputation as an artist of world standing was first put beyond all doubt. Now we see him no longer as a unique and extraordinary figurative, surrealist expressionist, but as an artist who has come at last to his own, as younger painters have come round again to the human figure as the central, creative preoccupation. As the subject matter is now more acceptable, so his popular and tormented re-invention and reconstruction of the figure no longer shocks. Ends Aug 18.

## PARIS

**Corot to Picasso**: The range of French 19th and 20th century masters assembled by the art merchant Robert Schmitt comprises an important Dejeuner en Conversation and a Van Gogh, unusual both for technique and the theme of the Seize. On the first floor the sunshine comes in with Vuillard, Bonnard and Dufy. Picasso's *Larga Busto* of Eleanora faces an equally large Bracquemond landscape with a strong blue, red and white one by De Staël. Galerie Schmitt, 286 rue Saint-Honoré (280 38 30), closed Sun and from 12am-2pm. Ends July 20.











## POLITICS TODAY

THERE is a curious idea in the air that the Conservative Party might win the by-election in Brecon and Radnor next Thursday. Mr. Craske, Osnaw, for example, the chairman of the party's 1922 Committee, who has his vote in the constituency, thinks that Tory support has not fallen away nearly as much as might have been expected.

There are others with a good political nose who know the place well and think much the same thing. A Tory MP for a neighbouring Welsh constituency says: "Yes, but please don't write it until after the weekend because anything might happen between now and then." As indeed it might. Nobody knows what the headlines in the next few days are going to be. There is the summit meeting of the European Community in Milan, for instance, there will be also public opinion polls about Brecon and Radnor.

It is an odd constituency: one of the largest in Britain, but with one of the smallest electorates. The people are all spread out. That is one reason why it is so difficult to tell how they will vote.

Yet, on the face of it, it ought to be a cinch for the Alliance. It is the first by-election this year. The Government is in mid-term and doing none too well. The local result in the general election of 1983 was Tories 48.2 per cent, Labour 25 per cent and the Alliance 24.4 per cent.

That is very similar to Portsmouth South, which the Alliance picked up quite easily in a by-election just over a year ago. It is also quite similar to the result in Stafford which the Alliance could have won in the by-election of May last year, if only it had tried harder.

The conventional pattern has been that the Alliance mobilises all its support, the Liberals used to do before it, attracts disaffected Tories, probably because from a statutory basis turn-out and the Labour vote, except in inner cities, continues to decline. Brecon and Radnor ought to be a replica. It is very interesting that hardly anyone is yet sure that it will be.

A Labour victory would be stunning. The Labour Party has not gained a seat in a by-election in the past decade apart from Birmingham Northfield in October 1982. Oddly enough, it was the narrowness of the Labour majority there that persuaded Mr. Cecil Parkinson, the then chairman of the Conservative Party, to press initially against Mrs. Thatcher's wishes — for an early general election in 1983. Labour then lost Northfield. Yet a win for Labour now in Brecon and Radnor, with the Government



Candidates in Brecon and Radnor (from left): Richard Livsey, Chris Butler and Richard Willey.

## Time for a fixed-term Parliament

By Malcolm Rutherford

In mid-term and the political conference season approaching, could bave a marvellous effect on the Party's morale.

A defeat for the Alliance would be quite crushing, even if it were a fairly narrow one. It would challenge the idea that at least in rural, southern or suburban by-elections, with the Tories in office, the Alliance carries all before it. If the Alliance were to come third, people would have to start reassessing their ideas about political realignment.

A Conservative victory would be rather fun. It would make people think. All those suggestions about a hung Parliament two or three years on, the premature talk about the result of the next general election when there are at least two years to go would have to be revised. It might make the party conferences in the autumn somewhat different, too, for there is unlikely to be another by-election this side of November.

And yet a Conservative victory ought to be quite properly on the cards. The Party did, after all, win nearly 50 per cent of the vote in Brecon and Radnor in the general election. Nothing much has changed cataclysmically since. The Government looks a little the worse for wear and the Labour Party has an attractive new leader, but the opposition is still divided—thereby giving the Tories the best weapon they have—and shows no signs of coming together. Thus a Tory win, probably with a reduced majority and with a lower turn-out, ought to be the most natural result in the world. It would reflect reality: not with enthusiasm perhaps, but at least reality.

The trouble is that by-elections have become a distorted and distorting feature of British politics. There used to be lots of them so that it was a kind of continuous process. Between the end of the first and the beginning of the second world

war there was an average of 18 a year. Between 1945-1970 the average was down to 11. Between 1970-1984 it fell to six.

There is another way of putting it. In the (not so) old days the composition of a Parliament tended to change as its life went on. The absence of a general election during the Second World War affects the figures, but it is still striking that between 1918 and 1970 each Parliament by the time it was dissolved had an average of 53 members who had come in at by-elections. In Mrs. Thatcher's first term, which ran for four years, there were only 20 members who had not been there at the start.

We all know the reasons. The most obvious one is that by-elections have come to be considered dangerous by the governing party. (It is not just the Tories.) They lead to Orpingtons, Ashfields, even perhaps to Brecon and Radnor, had headlines, charges of electoral volatility, mid-term

blues, calls for a change of course, better presentation, new party chairman and so on. On the whole Governments want to avoid them. The only compensation is when they turn out to be useful in testing the political weather before a general election: Birmingham Northfield, for instance, or Hull North under Prime Minister Wilson.

There are one or two other explanations. Not so long ago a by-election would be caused by an MP being sent off to become Governor of the Seychelles or somewhere or to run the Port of London Authority. Such posts are no longer so readily available.

It was also one of the political rewards to be elevated to the House of Lords. Nowadays MPs have to make do with a knighthood if they are lucky and relegation to the backbenches if they are not. Even Lord Whitelaw's nominally safe Conservative seat of Penrith and the Borders was very nearly lost to the Alliance when he

went to the upper house after the last general election which had taken place only a few months before the by-election. All that amounts to a considerable, if not widely noticed, constitutional change: on the whole, for the worse.

There are fewer by-elections; therefore more attention is attached to them. The continuum has gone out of politics. People take them deadly seriously: "minders" looking after candidates, all sorts of officials looking on from Central Office and so on. It is hard to imagine a by-election on a single issue like Munich in 1938 or (say) the famine in Ethiopia today.

One oddity is that it does not really matter very much, except at the time. The majority of seats lost at by-elections revert to the original party at the next general election.

The fall in the number of by-elections has had another unfortunate effect. Not only has the fun gone; it has led to a certain ossification in Parliament. There was already a trend for people to become more and more career MPs, doing what the Whips tell them and hoping for advancement. The absence of by-elections makes it much harder for someone to change their minds or their career in mid-course.

The new practice might be easier to defend if it had been deliberately designed. It has not. The only other constitutional change that has gone alongside it, and even that by accident, has been the development of hereditary peers. That too, has turned out to be a kind of ossification for where does reform go from there? Hardly anyone talks any more about further changes in the Lords.

One answer might be to go back to the old days where by-elections were two a penny and created a great deal of innocent excitement. It was not of too much moment what happened in Brecon and Radnor because there would be another test somewhere else in three weeks or so.

Another might be to go over to something like the West German system which dispenses with by-elections altogether. That, or the American which allows for the natural process of change by mid-term elections. Indeed the more one thinks about it, the more one becomes convinced that the best cure for the premature electionitis that has come to dominate this summer is not proportional representation but fixed-term Parliaments. At least everyone would know where they are. Who knows? They might even bring a measure of cross-party agreement in their wake.

## Lombard

## Seat-of-pants socialism

By John Lloyd

THAT old guru, Prag-ma-Tik, has been doing his rounds of the union conferences, bending an ear here, talking to a small group there.

The signs are that he is having more success in these quarters than hitherto. Pragmatism, his philosophical system which, he claims, should inform every area of one's life, has acquired a flavour of the month status in Left-wing circles which had regarded it with some disfavour.

All of this is billed as a "Boost for Kinnock"—one of Prag's most successful converts—since his success depends on large amounts of this philosophical balm covering most areas of policy. But it poses some familiar problems.

First, there are limits to Prag's system, most obviously in not being a system at all, but rather an intelligent response to events. If it is to survive, inspire, and flourish, it must depend on a vision of society and, in particular, of the economy on which it can elaborate Prag-type policies which "you know make sense".

It is still the case that while the Prime Minister and Mr. Arthur Scargill have visions of society, the area between them has yet to produce a coherent alternative which excites the mind and the political fibres alike. Within the Labour movement in particular, there is something of a hole where the democratic socialist, or social-democratic, vision should be.

Because of that, it is impossible to judge if the various nods or leaps in Prag's direction over recent weeks are simply tactical retreats in order to advance later, or changes of view: it is likely that those moving in these directions do not know themselves. Until a real system is put in place which can command allegiance because it can be interpreted to make sense, opportunism (which is what people call Prag's system when they are being rude) is enforced.

The split within the Communist Party points up this dilemma for the Labour movement. The "hard liners"—more accurately those who have fallen foul of a hard disciplinary line imposed by the executive—remain faithful to a socialist fundamentalism of which Mr. Scargill, though not himself a Communist, is the most talented exponent. The "Eurocommunists," who are the leading elements in the majority, are great followers of Prag, and astonish even him in the enthusiasm with which they have espoused his teachings. This raises the interesting question of why they still call themselves Communists; but more importantly, what do they, and the rest of the "sensible left," want?

The quick answer is a re-assertion of collectivist values against the individualism ones which they believe have run rampant over the past half-dozen years. But beneath that, there is considerable doubt as to whether such a reassertion would strike enough responsive chords. A recent survey of unions, for example, showed that while most of them still supported nationalised industries, many recognised they were not popular.

Fundamentalists of the left, which has as little to do with Prag as possible and relies instead on the belief that things will get so bad, or be seen to get so bad, that support will in time come from them, retains all the virtues of purity and principle. Many, even on the left, presently find it difficult to accept that Mr. Scargill is a man of principle, but he is, and his star may rise again.

It is the more likely to do so where no counter exists within the left except overt or covert liaisons with Prag in order to shape up for the electorate at a time when Labour looks electable once more. The Eurocommunist current in the Communist Party, important because it has stimulated similar currents in the Labour Party and the unions, has posed questions but given no answers as yet.

Attempts to formulate a late 20th century version of democratic socialism — Tony Crosland's "Future of Socialism" revisited — get Prag twitching with irritation; opinion is cheap, he will say, but election campaigns are expensive, so let's get on with the job. But the modern Conservative Party did not get where it is today by putting all of its eggs in Prag's basket, and the Labour movement could learn a trick or two from that.

### Exhaust emission control

From Mr R. W. Wheeler

Sir,—Your reports on the EEC muddle over car exhaust controls give me a feeling of déjà-vu having been involved in the U.S. counterpart of these events in the mid-1970s.

Then as now the industry stalled and prevaricated, showing little concern for air quality. They promised super-clean engines in X years' time if only the Government would go away and stop worrying. For its part the Government plied its exhaust emissions limits unreasonably low and was forced to give the industry waivers while they developed the three-way catalyst system.

Over there all this is history and hardly relevant. The cost was lost in the usual inflationary increases in car prices, as it will be in Europe. The major beneficiaries were the Japanese who, instead of squealing, did their homework and came up with clean cars in double-quick time.

One vital point about which the European Commissioners are being very coy concerns the exhaust emissions test drive cycle on the chassis dynamometers. The U.S. test cycle goes from 15.7 mph to cover the legal speed limit of 55 mph; it has some hard accelerations and makes engines work hard. The present EEC test cycle goes from 0-31 mph with only soft accelerations. Because of the low speed range a designer can quite legally switch his engine to a rich high-power mixture from 32 mph upward and let exhaust emissions rip; they simply are not measured.

This disparity in speed ranges makes emissions comparisons between the two cycles a waste of time and meaningless. The EEC cycle has been a quite cynical featherbed for the European industry resulting in its technical incompetence in the pollution issue. It should be dropped in favour of a version of the U.S. Federal test cycle since we have speed limits of 70 mph upwards it should have some high-speed elements incorporated in it. Then and only then can emissions limits be discussed on the basis of existing car technology and on clean air requirements.

Lean Burn, that scruffy old American rabbit which some companies have rejected out of the hat has been tried with in the past but has always given cars with poor driveability which stumble and stall particularly after some idling accumulation. If we ever get such cars, garages and home users will soon tweak the mixture back to normal and make them run properly. This whole muddle is quite unnecessary in the light of American experience and he knows a great deal of ill-will and ignorance of clean air

### Letters to the Editor

technology on all sides. Of the volume car makers only Volkswagen seems to have a realistic attitude.

Clean-air enthusiasts, and remember we all breathe 150 tons or so of the stuff in a lifetime, should be on their guard against an elaborate "fix" on behalf of a reactionary car industry, dedicated to a lethal car performance race and which because it cannot compete with Japan in world markets wants to turn Europe into a closed zone where it can indulge its old-world fancies. R. W. Wheeler, 19 Nevill Road, Nottingham, Brighton

#### Applying for shares

From Mr A. V. Drew

Sir,—The genuine small investor would have a much better chance to obtain new issues if it was not for the professional stags who overwhelm the issue with multiple applications. I have seen them at the issuing office between 9.30 am and 10 am on the closing day with literally suitcases of multiple applications which they tip onto the pile and ensure that they win the ensuing ballot many times over.

To prevent this unfair approach applications should only be accepted by post, thus ensuring that the professional stag—like the small investor—must make up his mind about the issue two to three days ahead to catch the post and be subject to last minute market sentiment changes. The post office will have every opportunity to sell more first-class stamps to the professional stag and subject the many applications to late delivery which the small investor endures as a matter of course. A. V. Drew, 15 The Holdings, Hatfield, Herts.

#### Supervision in banking

From Mr J. L. Sogister

Sir,—Total success in banking supervision is reserved for those with perfect hindsight. More formal systems of inspection have not saved Continental Illinois and countless other banks the U.S. from disaster in the last years. In the first six years of administering a not wholly satisfactory Bank Act, the Bank of England has to record one failure, but the Chancellor was reported to be looking for

significant staff changes. Mr Lawson himself however repeated a much more serious mistake within six months, precipitating two sterling crises. May we look for him to accept a "reshuffling" soon? J. L. Sogister, Mole End, High Molewood, Hertford.

#### Losing sense on translation

From Mr N. H. G. Armstrong-Flemming

Sir,—Lex, in the course of his article, (June 19), stated explicitly that, "suited companies to use end period exchange rates," and by implication, that the relevant U.K. accounting standard (SSAP 20) allowed this practice. In fact it should have been made apparent that the article was concerned with the financial statements of corporate groups which comprise one or more overseas subsidiaries and not with the reports of individual companies. The standard leaves to the discretion of the directors of corporate groups the accounting principles to be used in the preparation of consolidated accounts because one method is not considered appropriate in every situation. Provided full disclosure is made of the accounting principles used Lex should have no cause for concern even in a far from "ideal world."

Individual companies, on the other hand, are expected to translate foreign revenue and costs at the rate "in operation on the date on which the transaction occurred; if the rates do not fluctuate significantly an average rate for a period may be used as an approximation." I venture to suggest that in an ideal world there would be no need for statements of standard accounting practice for one would be able to rely on the financial statements being true and fair but, since we have not yet reached utopia, the Institute sets out standards which allow some discretion. Perhaps the true sadness is that the U.S. committee cannot do the same.

N. H. G. Armstrong-Flemming, Ingram and Flemming, 100 Winchester, Chalk Lane, East Horsley, Surrey.

#### Efficient market theory

From Mr D. Turgooose

Sir,—The argument concerning the Efficient Market Theory

(which is only a null hypothesis) drags on. It could be settled very quickly by its opponents.

Together with "chartists," "technical analysts," palmists and astrologers, the burden of proof rests entirely with them. It is they who claim to have discovered some Law of Nature or Law of Share Markets which will consistently produce better-than-random results. Let us see the data, the statistics, the evidence. I am sure that very nearly every one of your readers would be keenly interested.

The response (if any) will doubtless come from extremely wealthy individuals, for it requires only a tiny but consistent improvement over randomness for its repeated and cumulative effectiveness to lead to untold riches in a few years. D. Turgooose, 28, Lister Gate, Nottingham.

#### Scottish pound notes

From Ms B. Davies

Sir,—Since the Royal Bank of Scotland is to trade in England in place of the Williams and Glyn's, it is to be hoped that Royal Bank's one pound notes will be issued over the counters to enable customers to retain the advantage of a pound note over the pound coin, the currency to which all other English banks will be restricted.

I am sure this would be a good selling point to the Royal Bank, as my experience in running a retail business both in England and Scotland confirms that there is a continuing resistance to the coin and that most people would welcome the retention of the note.

As a customer of the Royal Bank in Scotland, I am seriously considering issuing as change a supply of Scottish pound notes to those of my customers in England who prefer notes to coins.

B. Davies, Managing director, the Campus Group, Advanced Business Centre, Nottingham.

#### Air India disaster

From Philip Conti

Sir,—With regard to the Air India disaster, your Aerospace Correspondent, Michael Donnan (June 25) states that "... total security is impossible short of turning every airport into an armed camp with regular ruthless body and baggage checks." As a seasoned traveller I would much prefer a ruthless body and baggage check within the airport rather than after having been fished out of the sea. Philip Conti, 19, Elm Row, Edinburgh.

### Breaking new ground

Last summer, Uwe Hohn of the GDR broke new ground in the javelin with a world record of 104.80 metres. That throw went unmatched—and virtually unchallenged—in a summer when East and West rarely met in athletics.

This summer, the best throwers, runners, jumpers, and vaulters will have 76 chances to meet in the IAAF Mobil Grand Prix. Sponsored by Mobil and organised by the International Amateur Athletic Federation, this first-ever international season got underway in San Jose, California, on 25 May, and culminates with the Grand Prix finals in Rome on 7 September. Upcoming are the DN-Galan in Stockholm on 2 July and the World Games in Helsinki on 4 July.

Grand Prix points are awarded to athletes on the basis of their performances and times. World records gain extra points. At the conclusion of the overall Grand Prix, titles will be awarded to the outstanding male and female athletes and to the outstanding performers in each event.

With this competition, Mobil is pleased to be breaking new ground in athletics. That's the point of it all.



Here's the 1985 IAAF Mobil Grand Prix schedule:

|                                  |                      |             |
|----------------------------------|----------------------|-------------|
| Bruce Jenner's Red Light Classic | San Jose, California | 25 May      |
| The Proletarian Classic          | Exeter, Oregon       | 1 June      |
| Znamensky Memorial               | Moscow               | 3 June      |
| Rosovsky Memorial                | Prague               | 22 June     |
| DN-Galan                         | Stockholm            | 2 July      |
| World Games                      | Helsinki             | 4 July      |
| Nika                             | Nice                 | 16 July     |
| Poussot Talbot Games             | London               | 19 July     |
| Clayton Bisset Games             | Dole                 | 27 July     |
| IAC                              | London               | 2 August    |
| Budget Grand Prix                | Budapest             | 4 August    |
| Westfalia                        | Düsseldorf           | 21 August   |
| ISTAF                            | West Berlin          | 23 August   |
| Westfalia                        | Cologne              | 25 August   |
| De Von Darnum Memorial           | Brussels             | 30 August   |
| IAAF Mobil Grand Prix Final      | Rome                 | 7 September |



David Housego charts the evolution of France's new attitude to national security

## Paris takes a European line on defence

GENERAL DE GAULLE believed that France could choose to stay out of a war in Europe while reserving its forces for the defence of French national territory. That has long seemed an unrealistic assumption, but has none the less remained at the core of French orthodoxy on defence for the last 25 years.

There are now growing signs, however, that the doctrine is being quietly shelved. Statements by the opposition parties, the Government and the Socialist party in recent weeks point to an increasing acceptance that France would be drawn into a European conflict from the outset and that French independence would have little substance if West Germany were to be overrun.

So from an independent concept of defence, France is now increasingly defining its defence policy in European terms. If that change opens up new possibilities of co-operation with France's European partners - West Germany first of all, but also with Britain - it also raises another, so far intractable problem. French defence strategy is also based on the other pillar of Gaullist theory: refusing a prolonged conventional war in Europe by threatening the early use of nuclear weapons. French defence expenditure since de Gaulle has been concentrated on modernising the nuclear armory.

But Nato strategy, and hence that of West Germany, is increasingly based on a reluctance to use nuclear weapons and so depends on the acceptance of a longer conventional war in Europe. As a result of that fundamental divergence of view, France-West Germany talks on mutual security issues under the revived 1963 Elysée Treaty continued

Fifty-seven per cent of Frenchmen consider that France should go to West Germany's aid if its security was gravely threatened, according to an opinion poll published in *Le Monde* yesterday. The poll is the first for a long time to examine French attitudes towards West Germany.

The poll, carried out by the IFOP institute, finds that a smaller proportion - 40 per cent - favour ex-

tending France's nuclear umbrella to West Germany.

The buying of wartime differences between the two countries is reflected in replies to the question on whom West Germany most resembles in terms of outlook and behaviour. Twenty-six per cent of those questioned replied the French - with the Americans being in second place with 17 per cent.

by bump up against the brick wall of what type of war would be fought in Europe and with what weapons.

The most clear-cut sign of the change in defence thinking in France was the statement two weeks ago by former President Valéry Giscard d'Estaing, who declared that an invasion of West Germany should be considered as affecting the "ultimate security" of France. In the 1970s, he had been moving towards that concept of an "enlarged sanctuary" but was stopped by opposition from the neo-Gaullist RPR on whom he was dependent for a majority in the National Assembly.

M. Giscard d'Estaing made his comment in presenting the defence programme of the centrist UDF group - the other main component of the parliamentary opposition. The UDF says that France should be ready to enter a European conflict at the outset and that "the frontier of our independence is on the Elbe" and not the Rhine.

It proposes that consultations should begin as soon as possible with France's allies and with West Germany in particular on the use of French tactical nuclear weapons. The importance of that is that, in French doctrine, the use of tactical nuclear weapons is closely linked to the use of the strategic deterrent against Soviet cities. Giscard d'Estaing also suggests that explor-

atory talks should begin towards a European defence treaty. The RPR does not go as far as their strongly pro-European UDF partners, but there has been a significant shift in their defence thinking. M. François Fillon, the RPR defence spokesman, proposed that France should make official doctrine that France has "two eastern frontiers: its geographical frontier on the Rhine and the frontier of its independence on the Elbe." But he was ruled out of court by the Gaullist "old guard." The party, however, is committed now to establishing a "new structure of co-operation" with West Germany over security and armaments.

President François Mitterrand, since coming to power, has been edging towards a more European concept of defence. The revival of the Elysée Treaty with West Germany was a step in that direction, as was the creation of a 40,000-strong rapid deployment force symbolising France's greater readiness to intervene early on West Germany's side.

M. Mitterrand, however, had two obstacles in his way. As a Socialist President he had to step warily in the face of Gaullist doctrine taboos. President Mitterrand, with the Communists in government, could not link France's defence to that of West Germany in a way that would

certainly discuss whether or not such fears were exaggerated.

Herr Föll also stressed that in his view the importance of the Ecu for the development of the EMS had been greatly exaggerated by many people. In fact, the opposite was true. The future of the Ecu depended on whether the exchange rate mechanism of the EMS could be kept stable and greater economic convergence in Europe achieved.

Herr Föll's remarks came against a background of high-level concern at the Bundesbank that the tough stance on the Ecu has been widely interpreted as an "anti-European" attitude generally.

Some senior officials feel the Bundesbank has been put badly on the defensive on the issue, although it has worked hard to improve the EMS - most recently through the so-called "mini-package" of reform steps agreed by European central banks.

The Bundesbank had not permitted Ecu accounts so far, not because it was hostile to the Ecu as such, but because it did not want to set a precedent for other forms of international reserve currency and monetary fields in West Germany.

"Rightly or wrongly," after two terrible bouts of inflation in this century, inflation was a very sensitive topic in Germany, the Bundesbank president said. One could

by other European countries to remove obstacles to Ecu use on their territories "will certainly not be an unmitigated success."

Herr Föll emphasised that it was a widespread misconception that Ecu transactions were subject to no restriction at all in other EMS countries and that only the Bundesbank had taken a negative stand so far. In general, he said, West German capital and money markets were among the most liberal in the world.

The Bundesbank had not permitted Ecu accounts so far, not because it was hostile to the Ecu as such, but because it did not want to set a precedent for other forms of international reserve currency and monetary fields in West Germany.

"Rightly or wrongly," after two terrible bouts of inflation in this century, inflation was a very sensitive topic in Germany, the Bundesbank president said. One could

tion/nuclear forces be involved in our defence in a war?

More worryingly, the French have convinced themselves that their support for the deployment of U.S. intermediate-range missiles in West Germany has contributed to the growth of the "pacifist" and "neutralist" sentiment in West Germany that they most want to avoid. Hence the new pressure to demonstrate France's solidarity with West Germany on security issues.

The second principal factor is that with the French defence expenditure now falling in real terms and defence costs rising in all parties are increasingly aware that France cannot afford the independent defence that de Gaulle bequeathed.

The concentration on nuclear spending has meant that equipment purchasing for the conventional forces has fallen way behind target. That process was already under way in President Giscard d'Estaing's years, but has accelerated under the Socialists. So France is more than ever dependent on its nuclear armoury.

The vulnerability of the strategic deterrent is also being increased by new developments in Soviet weapons technology: anti-ballistic systems, precision-guided missiles that could destroy the French communications, command and control centres and land-based intercontinental missiles.

The length of government and opposition's arms shopping lists - movable SX inter-continental missiles, an observation satellite, anti-satellite weapons, an AEW warning system, aircraft and tanks - reflect what is needed to plug the gaps. But France can no longer afford it on its own.

## London tin prices fall after limit on premium

By John Edwards in London

TIN VALUES tumbled on the London Metal Exchange yesterday as trading resumed under a new restriction imposed by the exchange limiting to 500 the daily premium that could be charged to sellers seeking to delay their delivery commitments.

Trading was suspended on Wednesday when the premium for delaying delivery for one day reached more than £500 a tonne, threatening some traders with heavy losses.

When trading resumed yesterday, the standard grade cash tin price fell £50 to £3,875 a tonne, more than offsetting Wednesday's rise of £435 to a record £10,325 a tonne. The three-month quotation also fell yesterday but only by £32.5 to £3,425.

A special joint meeting of the Metal Exchange board and management committee yesterday unanimously agreed to set the daily limit because the exchange argued that penalising legitimate traders using the market for its correct basic purpose of hedging through the high premium was unacceptable. The limit will remain until such time as "orderly" trading is restored.

The same technique of limiting the cash price premium was used by the Metal Exchange in early 1982 when a mystery buying group sought to "corner" the market by buying up all available supplies.

The situation is rather different on this occasion since the main sufferer from the restriction is the buffer stock of the International Tin Council.

Reid polishes up nickel giant, Page 2; Other commodity news, Page 40

## Hijack crisis 'near end'

Continued from Page 1

lage crisis has already eroded Israel's popularity with the U.S. public.

The change in Israel's stance follows a telephone call from M. Dumas on Wednesday evening. He asked Mr. Shimon Peres, the Prime Minister, how Israel would react if France took up the proposal by Mr. Berri to transfer the hostages to a Western embassy.

Israel believes the French telephoned on behalf of the Americans and privately, officials are furious with the U.S. for putting indirect pressure on them to release the Shias while publicly refusing to ask Israel to free the prisoners.

The Swiss Government is also continuing to play a role in the search for a solution to the crisis. A government statement said yesterday it would in principle be prepared to accept the hostages - but only on condition that "no further conditions were placed and that Switzerland had the assurance that it could freely bring the people concerned to Switzerland or to another place and set them free."

The report concludes that although progress has been made in adjusting the Italian economy during the past two years, more efforts are required and what has so far been achieved must be consolidated.

## Scargill faces test from union left

By John Lloyd, Industrial Editor, in London

SHARP political differences between two groups of the dominant left-wing of Britain's National Union of Mineworkers (NUM) will emerge at the union's annual delegate conference in Sheffield, Yorkshire, next week.

As a result, there will be a challenge from the left to fundamental rule changes being proposed for the union.

The left-led Scottish area yesterday voted to leave all decisions on the rule changes to its conference delegates - with the understanding that they would support any proposed revision of the changes.

The South Wales area, also left-led, may support the Scottish area's stance - although its area conference last week voted to support most of the rule changes, but to oppose a few crucial elements. Most importantly, it would ensure a rule that would ensure that Mr. Arthur Scargill, the NUM president, lost his casting vote on the na-

tional executive and would thus be exempt from the provision in the 1984 Trade Union Act which enforces five-yearly elections.

If the move to remit the rule changes were to be supported by the right-hand areas - which are, in general, opposed to all of the changes - the far-reaching reforms planned by the union would be lost.

Scottish and South Wales delegates will argue that the changes will create division, and possibly acrimonious splits, in the union. That would be at a time when, they say, the NUM should campaign strongly for the reinstatement of the miners dismissed during the year-long strike that ended in March, and also fight for the preservation of pits and public support for coal.

Their line follows closely that arrived at by the Communist Party's influential miners' advisory group at a meeting last weekend, which emphasised those priorities.

## OECD warns Italy

Continued from Page 1

borrowing requirement. Under the circumstances, the OECD believes that the only way Italy can break loose from its current dilemma is by rapidly becoming more competitive through a reduction in both inflation and in the general government borrowing requirement.

Radical reforms are above all needed on public expenditure the report says. It points out that changes so far made to the pension scheme have not managed to prevent the social security deficit increasing. Transfers to enterprises could also be more effectively monitored. The OECD suggests that there is a need to strengthen fore-

casting and appraisal procedures for costing government programmes.

The OECD says the growth of wages and costs will have to be brought rapidly under control if the policy of maintaining the stability of the lira exchange rate in the European Monetary System is to succeed.

The report concludes that although progress has been made in adjusting the Italian economy during the past two years, more efforts are required and what has so far been achieved must be consolidated.

## BP subsidiary to axe 450 staff in U.S.

By William Hall in New York

STANDARD Oil Company (Ohio), British Petroleum's majority owned U.S. subsidiary, is cutting about 450 corporate staff jobs and will take a charge of up to \$50m pre-tax to cover the reorganisation of its headquarters staff.

Mr. Alton Whitehouse, chairman, said yesterday that "Sohio, is operating in a tougher environment worldwide. We have decentralised our businesses and are working to improve our overall corporate and business performance in this economic climate."

Sohio is the latest in a string of major oil companies to announce plans to cut overhead costs and slim down its organisation to meet the tougher conditions now prevailing in the international oil business.

At the end of March it announced that it was suspending operations at its Utah copper division, which controls the biggest copper mine in the U.S.

One leading foreign exchange dealer in Stockholm said yesterday, however, that uncertainty still remained with an election only 2½ months away, and there were persistent doubts about the next government's readiness to act decisively to correct imbalances in the Swedish economy.

## World Weather

| Area           | S  | C  | F  | Area       | S  | C  | F  |
|----------------|----|----|----|------------|----|----|----|
| Algeria        | 24 | 75 | 24 | London     | 24 | 75 | 24 |
| Amman          | 24 | 75 | 24 | Madrid     | 24 | 75 | 24 |
| Antwerp        | 24 | 75 | 24 | Moscow     | 24 | 75 | 24 |
| Athens         | 24 | 75 | 24 | Nairobi    | 24 | 75 | 24 |
| Bahia          | 24 | 75 | 24 | Paris      | 24 | 75 | 24 |
| Bangkok        | 24 | 75 | 24 | Rome       | 24 | 75 | 24 |
| Bombay         | 24 | 75 | 24 | Stockholm  | 24 | 75 | 24 |
| Buenos Aires   | 24 | 75 | 24 | Toronto    | 24 | 75 | 24 |
| Calcutta       | 24 | 75 | 24 | Washington | 24 | 75 | 24 |
| Cairo          | 24 | 75 | 24 | Wellington | 24 | 75 | 24 |
| Cardiff        | 24 | 75 | 24 |            |    |    |    |
| Cebu           | 24 | 75 | 24 |            |    |    |    |
| Dakar          | 24 | 75 | 24 |            |    |    |    |
| Dhaka          | 24 | 75 | 24 |            |    |    |    |
| Dublin         | 24 | 75 | 24 |            |    |    |    |
| Edinburgh      | 24 | 75 | 24 |            |    |    |    |
| Geneva         | 24 | 75 | 24 |            |    |    |    |
| Hankow         | 24 | 75 | 24 |            |    |    |    |
| Hong Kong      | 24 | 75 | 24 |            |    |    |    |
| Kobe           | 24 | 75 | 24 |            |    |    |    |
| London         | 24 | 75 | 24 |            |    |    |    |
| Lyons          | 24 | 75 | 24 |            |    |    |    |
| Manila         | 24 | 75 | 24 |            |    |    |    |
| Mexico City    | 24 | 75 | 24 |            |    |    |    |
| Moscow         | 24 | 75 | 24 |            |    |    |    |
| Mumbai         | 24 | 75 | 24 |            |    |    |    |
| Nairobi        | 24 | 75 | 24 |            |    |    |    |
| Paris          | 24 | 75 | 24 |            |    |    |    |
| Rangoon        | 24 | 75 | 24 |            |    |    |    |
| Rio de Janeiro | 24 | 75 | 24 |            |    |    |    |
| Rome           | 24 | 75 | 24 |            |    |    |    |
| Singapore      | 24 | 75 | 24 |            |    |    |    |
| Stockholm      | 24 | 75 | 24 |            |    |    |    |
| Taipei         | 24 | 75 | 24 |            |    |    |    |
| Tokyo          | 24 | 75 | 24 |            |    |    |    |
| Toronto        | 24 | 75 | 24 |            |    |    |    |
| Ulaanbaatar    | 24 | 75 | 24 |            |    |    |    |
| Washington     | 24 | 75 | 24 |            |    |    |    |
| Wellington     | 24 | 75 | 24 |            |    |    |    |
| Yokohama       | 24 | 75 | 24 |            |    |    |    |

THE LEX COLUMN

## Two-way stretch for Mills

What started as a local problem in electronics has by yesterday evening developed into wholesale panic. The London equity market now stands at around its lowest level of the year and the size of the stocks being left with the underwriters should ensure that the recovery, if there is to be one, is a slow affair.

## Mills &amp; Allen

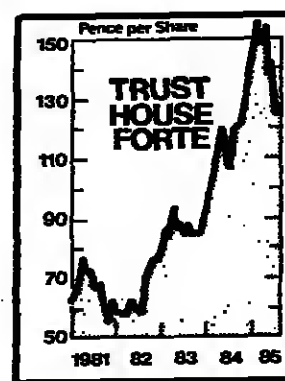
The relative merits of vendor placings and rights issues seem pretty evenly balanced in the City this week: any form of capital raising is equally unpopular with underwriters who look like having to earn their money the hard way in a falling market. Mills & Allen will get no marks for the timing of its £25m equity call. But it perhaps deserves some credit for trying to get the advantages of both financing methods, through an issue which starts off as a vendor placing, but turns into a rights issue. The vendors of Gintelco (a bond-broking business in New York) get their cash while the shareholders in Mills avoid the dilution which they would suffer through a normal placing.

This is no doubt in the interest of individual shareholders, but there are costs in the rights issue route which the bulk of Mills' institutional shareholders might wish to avoid - such as the sub-underwriting fee and a few weeks' interest on the bridging loan needed for immediate completion. On the other hand it seems strange to have a placing if you are also going to the shareholders. The final argument for doing so is that it allows Mills to merge-acquire the acquisition, which avoids the eventual embarrassment of writing off £20m of goodwill.

Like many another people business, Gintelco has made its exit at nearly four times net worth. Whether this premium turns out to be worth paying will depend on how long the people stay, and on the continued health of the U.S. corporate paper market. At any rate the earnings dilution seems likely to be minimal: down 5p at 31p, Mills' shares were gently dealt with.

## Amro/EBC

The sale of a consortium bank is naturally a complicated affair but yesterday's transaction involving European Banking Company is positively Finnish. Having promised the U.S. authorities to reduce its shareholding in EBC's U.S. sister, European American Bank, Midland



has swapped 15 per cent of EAB for the EBC equity and sold that to Amro of the Netherlands.

The £25m or so paid by the Dutch is not much here or there to Midland, although Amro gains a late entry into London-based investment banking and a well respected foreign-exchange dealing operation. The actual premium of 25 per cent to EBC's net worth includes the prospect of a good year's trading and at least Amro appeals to the whole of EBC's current management instead of only to some, as in the mooted Merrill Lynch deal.

Yesterday's transaction does raise questions about the future of other consortium banks under the umbrella of European Banks International or EBC, the club of seven European banks. The main problem is EAB which has produced dismal returns on its shareholders' equity since buying the rump of Franklin National, and last year lost a Crockford £132m. In any case, when a 23 per cent EAB shareholder such as Deutsche Bank is running its own operation, not in California like Midland but just next door, it is doubtful EBC has much of a future except as a gentlemen's club.

## THF

Not even the promised descent of 30,000 U.S. lawyers on London has been enough to support Trusthouse Forte's share price in recent months. From a prospective 1/8 of 15 at the end of last year, the shares - up 4p at 12p yesterday - have slipped to a rating of nearer 11.

It is not as if THF has exactly disappointed. Yesterday's interim results to end-April show pre-tax profits, net of property disposals, rising 27 per cent, with not so much as a nudge from currencies. Outside the U.S., occupancy rates are between 5 and 8 per cent higher than this time

last year, and though tariffs have only increased by 5 to 8 per cent, realised rates have been higher due to less discounting.

But the U.S. continues to be a problem, with chronic oversupply in the upper price range. On average, THF's hotels are only about 60 per cent full, and as the economy slows down, it is hard to envisage much of a turnaround this year. Of the £11m that THF has earmarked for 1985's capital expenditure, the U.S. share will quite sensibly fall.

The UK hotels are obviously in line for a bumper summer. THF is so confident of filling its London rooms that it has turned down group bookings that might involve discounts. But the share price has been discounting this ever since Britain started to look inexpensive to tourists. Judging by their recent languor, the shares may not excite unless THF comes up with some news, maybe on the Savoy Hotel front where there has been persistent takeover speculation.

## Guinness/Bell

The case of Guinness versus Arthur Bell got off to a messy start with the principal defendant stranded in America and the plaintiff forced into court earlier than envisaged by circumstances beyond his control. Fortunately, proceedings have now settled into a reassuringly familiar pattern. Yesterday the judge quite properly rejected the defence charge that Morgan Grenfell QC was acting unethically because of his earlier access to confidential Arthur Bell papers.

With that point of law out of the way, the two sides announced their final teams. Morgan is being supported by Noble Grossart of Edinburgh, whose Scottish accent is described to impress the jury, while S.G. Warburg has been brought in to lead for the defence. In the UK, at least, Henry Ansbacher will now be junior counsel.

Late in the day, Morgan presented the main thrust of its case, which amounted to little more than a reiteration of earlier arguments. The convincing evidence - a profit forecast and a higher offer - is perhaps being saved until later. Morgan is playing the Scottish card for all it is worth, although ironically it is the threat of a reference to another court - on Scottish grounds - which is keeping the Bell price almost within reach. Last night it represented a premium of only 6½ per cent to the existing equity offer.

|  |                         |                     |                               |
|--|-------------------------|---------------------|-------------------------------|
| <br>Heathrow<br>60 mins*<br>Gatwick<br>110 mins* | <br>M27<br>A5 (M)<br>M3 | <br>London 60 mins* | <br>Southampton<br>Portsmouth |
|--|-------------------------|---------------------|-------------------------------|

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## SECTION II - COMPANIES AND MARKETS

# FINANCIAL TIMES

Friday June 28 1985

EXPERIENCE, EXPERTISE,  
AND TEAMWORK  
WORLDWIDE  
**TAYLOR  
WOODROW**

## Bosch expects sales at new high of DM 20bn

BY JONATHAN CARR IN STUTTGART

ROBERT BOSCH, the West German electrical and vehicle components concern, is heading for another strong result this year with world group sales for the first time likely to reach DM 20bn (\$8.5bn) and profits in line with the record 1984 figure.

Despite the impact of the seven-week strike in the metalworking industry last year, Bosch's sales rose by 13.9 per cent to DM 18.4bn while group net earnings jumped by 84 per cent to DM 446m.

Dr Marcus Bieri, chief executive since last July, noted that the 1984 earnings figure had been boosted by an extraordinary gain of DM 150m released from reserves. The sum had originally been set aside to cover special risks, notably in the U.S., but was no longer needed for that purpose.

Even without that special factor—and despite rising cost pressures—latest signs were that 1985 profits would be "similarly good."

Group fixed-asset investment would be increased by about 15 per cent to DM 1.3bn this year (6.6 per cent of sales compared with 6.1 per cent in 1984), with about three quar-

ters of that being spent in West Germany.

Dr Bieri noted that the financial strength of Bosch—a private limited company 90 per cent owned by a charitable foundation—would again allow it to finance all its investment and most of its increase in current assets from cash flow.

In the first five months of this year, world group sales rose by 14 per cent against the same period of 1984 to DM 8.7bn—thanks to a rise of 11 per cent at home and 24 per cent abroad. The foreign share of group sales is thus likely to increase again this year.

Sales of vehicle components, much the biggest product division accounting for more than half of overall turnover, rose by 16 per cent, with particularly strong demand for Bosch's anti-skid and fuel injection systems.

Sales in the communications technology division, about one quarter of turnover, were up by a more modest 8 per cent. While there was buoyant demand for advanced electronic information systems, the consumer electronics market stayed depressed—affecting in particular the colour television sales of the Bosch subsidiary Blaupunkt.

A major boost to Bosch's overseas business is again coming from the U.S. market where sales—especially of vehicle components—jumped sharply last year and now account for around 10 per cent of world group turnover.

Bosch has recently acquired more U.S. production facilities and expects its overall U.S. workforce to rise from a current level of about 2,900 to more than 4,000 by 1987.

The detailed figures now released show last year's performance to have been one of the best in the company's history—with a net profit return on sales of 25 per cent, a jump in fixed-asset investment from DM 855m to DM 1.1bn and a rise in domestic research and development spending from DM 527m to DM 906m.

Despite the loss of some DM 600m in turnover through the strike, Bosch was still able to increase sales of vehicle components by 17 per cent while German vehicle production fell by 24 per cent.

Net profit of the parent company—Robert Bosch GmbH—rose to DM 281m from DM 157.4m in 1983.

## AEG set to resume dividend in 1988

By Leslie Collett in Berlin

AEG, West Germany's second largest electrical group, is expected to resume dividend payments in 1988, according to Herr Heinz Duerr, chairman. The company has failed to pay a dividend since 1974.

Herr Duerr, who has nurtured AEG back to profitability since its near financial collapse in 1982, told shareholders they could expect a payout for 1987 if the company continued to be profitable. Earnings for this year and 1988 are to be wholly reinvested.

Last year AEG had earnings of DM 100m (\$32.8m) compared with DM 40m in 1983 on turnover of DM 1.1bn. The company's financial debt was reduced from DM 1.8bn to DM 1.3bn. Orders in the first four months of this year of DM 3.6bn were 5 per cent ahead of last year.

Shareholders voted in favour of a company decision to drop the name Telefunken as a result of the sale of the Telefunken household appliances division to Thomson of France.

Herr Duerr said AEG was now a "technology group" with consumer products making up only 18 per cent of sales. Communications and office systems were the most important single divisions with combined sales of DM 3.5bn and would be the future growth sectors.

The chairman indicated AEG plans to buy back shares in its Olympia office equipment subsidiary. It sold 40 per cent of Olympia at the depth of its troubles in 1981 to the Bosch group and a consortium of AEG's banks. Currently Olympia is making a loss, but Herr Duerr said there was reason to believe it could return to profitability in the next three years.

## Esselte seeks to buy Boorum and Pease

By Kevin Done in Stockholm

ESSELTE Business Systems, the U.S. subsidiary of the Swedish office supplies, publishing and packaging group, is seeking to take over Boorum and Pease, the U.S. office supplies company, in a deal worth \$45m.

Esselte is bidding \$39 per share, and the offer has already been accepted by the private family which controls some 54 per cent of the Boorum and Pease equity.

Boorum and Pease had a turnover last year of some \$70m and a workforce of more than 1,000. Esselte said the company was one of the oldest U.S. producers of office supplies.

Esselte is aiming to integrate the Boorum and Pease operations with its North American Esselte Penafax activities, which currently have production facilities at 12 locations in the U.S. and Canada.

Products of the two operations were complementary, said the company.

## Citibank steps up pace of German expansion

BY JOHN DAVIES IN FRANKFURT

CITIBANK, the U.S. banking group, is opening branches in more West Germany cities to try to build up business with medium-sized companies.

After opening in Cologne three weeks ago, it plans to set up branches in Hanover and Mannheim later this year. By then it will be established in 10 cities—an unusually wide network for a foreign bank in West Germany but a reflection of the country's highly decentralised business environment.

The process of regional expansion will not stop there as executives envisage two or three more branch offices in unspecified locations.

Citibank started up in Frankfurt more than 30 years ago, initially as a representative office, and in a bout of expansion between 1965 and 1970 it opened branches in Berlin,

Düsseldorf, Hamburg, Munich and Stuttgart.

After a 14-year gap, it launched its current growth strategy by opening its seventh West German branch in Nuremberg last year to establish links with customers in northern Bavaria.

Executives said Citibank felt it had to be close to medium-sized customers as such clients were not inclined to deal with a bank in a distant centre such as Frankfurt. The bank aimed to be established within an hour's drive of a customer.

Citibank sees its search for so-called "middle market" business as a key element in its West German strategy, in addition to traditional business with large corporations, notably international concerns, and investment banking activities.

The bank increased its business volume by 24 per cent to DM 7bn

(\$2.3bn) last year, with its operating profit rising to DM 68.1m from DM 62.2m in 1983. The number of employees rose by 44 to 597.

Mr Philip Sherman, chief executive, said Citibank aimed to be a wide-ranging "universal bank" in West Germany.

In common with West German banks, Citibank is giving increasing attention to building up services, in view of the tight margins and limited growth prospects in credit business.

It also continued to put great store on electronic banking, in which it has been one of the prime movers in West Germany, along with Chase Manhattan of the U.S.

Executives said that companies were showing much more interest in electronic banking now that local West German banks were increasingly offering such services.

## Enserch to take \$225m charge

By William Hall in New York

ENSERCH Corporation, the Dallas-based engineering and energy conglomerate, is taking a \$225m pre-tax writedown on its oilfield services operations in a further sign that the slump in the U.S. oil services industry is far from over.

Mr W. C. McCord, chairman, said that Pool Company, the group's oil field services business, had been recording operating losses each quarter since late 1982 and the immediate future looked no better.

Pool owns or operates more than 800 oil rigs, and its oil services business is the second largest in terms of assets. The company says that it expects its consolidated cash flow to continue to be adequate to sustain the current quarterly common stock dividend of 40 cents per share that has been in effect since early 1982.

In a move to cushion the impact of the writedown on second-quarter earnings, the group is taking a \$85m after-tax gain on the sale of 15 per cent of Enserch Exploration Partners, a recently formed limited partnership. Enserch raised \$232m from the sale of this stake, and this was used to reduce debt and for general working capital purposes. At the end of 1984 Enserch had shareholders' funds of \$1.2bn and senior long-term debt of \$736m which has subsequently been substantially reduced following the sale of Enserch Partners.

Enserch also disclosed yesterday that it was in the process of selling Samson Ocean Systems, a Boston company which manufactures ropes and fenders.

Enserch's earnings peaked at \$187.5m in 1981 and slumped to \$80.8m in 1983 before recovering to \$92.6m in 1984. In the first three months of 1985 Enserch's net income fell by 17 per cent to \$46m, or 69 cents per share.

## Amexco in Japanese securities move

AMERICAN EXPRESS is to terminate banking in Japan and switch to securities business in view of its greater growth potential in the country, Kyodo reports from Tokyo.

The U.S. group's subsidiary, American Express Bank, was to close its branch in Tokyo—established in 1954—and another Amexco subsidiary, Shearson Lehman Brothers, would seek a Finance Ministry licence to securities business in Japan, officials said.

The move is designed to meet a Japanese law barring banks from doing securities business. A Finance Ministry official said it would clear the way for Amexco to launch securities operations in Japan.

The Amexco officials said the company hoped to begin securities business within the next two years, possibly early in 1986.

## Apple implements survival strategy

BY OUR FINANCIAL STAFF

APPLE COMPUTER, the California pioneer of the personal computer business, has announced a sweeping reorganisation of its sales and marketing efforts for its Apple II and Macintosh models, as part of its strategy to survive the severe downturn in the personal computer market.

Mr John Sculley, Apple's president, told a conference in San Francisco late on Wednesday that the company would disband its direct sales force of 60, which has been selling Apple equipment directly to large corporate and university customers, and would in future rely mainly on its dealer network.

Mr Sculley also confirmed that Apple expected to report a loss for its third quarter, which ends on June 30, although he declined to forecast a figure.

The Apple president's remarks constituted his first public statement since the management reshuffle two weeks ago in which Mr Steven Jobs, the company's chairman and co-founder, was effectively removed from day-to-day management responsibilities.

Mr Sculley said the company would launch a new marketing programme for the Macintosh on July 1. As part of that, dealers would be supplied with a wider range of accessories by Apple itself and with more software—items on which dealers can earn higher profits.

In addition to making its peace with its dealer network, which has in the past often criticised Apple's marketing approach, the company also hinted that it was prepared to work more closely with outside equipment suppliers.

## BASF expects 10% sales rise

BY OUR FRANKFURT STAFF

BASF, the West German chemical group, has continued to boost its sales revenue, especially abroad, and is hoping for a further increase in earnings this year.

Group sales in the first half of this year are expected to show a rise of 10 per cent to DM 22.3bn (\$7.33bn) while parent company sales are expected to rise by 5 per cent to DM 10.36bn.

Dr Hans Albers, chief executive, told the shareholders' meeting in Ludwigshafen yesterday that, although the main impetus to growth was coming from markets abroad,

the domestic market had also shown signs of picking up more strongly. In the U.S. the upswing was flattening out, he added.

BASF and the other two major chemical groups, Hoechst and Bayer, all enjoyed a substantial increase in sales and earnings last year, and all lifted their dividends to DM 9 from DM 7 for 1983. Although the industry has been cautious about the likely rate of growth this year, the major companies have begun the year very strongly.

Dr Albers said that, as part of its strategy, BASF aimed to build up

business in growth markets abroad.

It was disclosed earlier this week that BASF plans to add to its U.S. fibres activities by acquiring American Enka from Akzo, the Dutch chemicals and fibres concern.

American Enka had sales revenue of nearly \$500m last year, with two thirds of its business in nylon fibres and the rest in polyester and rayon products.

The deal, which still has to be approved by U.S. authorities, comes shortly after BASF agreed to buy the Inmont motor vehicle coatings and printing ink concern for \$1bn

## British banks come to market

BY ALEXANDER NICOLL IN LONDON

TWO BRITISH banks launched bond issues yesterday while Statoil, the Norwegian state oil company, issued a straight dollar Eurobond which, for the first time, carries no government guarantee.

Barclays Bank is making a straightforward, though aggressively priced, \$250m Eurobond issue, for five years with a 10 1/2 per cent coupon and 100 1/2 per cent pricing. The issue, in the name of a Jersey subsidiary with a parent company guarantee and led by Barclays Merchant Bank with Salomon Brothers International, counts as senior debt.

Meanwhile, indicated terms were set for National Westminster Bank's SwFr 300m bond with equity warrants. This is the largest foreign issue in the currency since the SwFr 200m ceiling was raised last month. It is the first Swiss issue by a British bank with equity warrants, though it is not NatWest's first warrant issue. In 1980, equity warrants were included in a deal to buy Lombard Banking.

The bonds will have a 10-year life and an indicated yield of 4 1/2 per cent. Each SwFr 5,000 nominal amount is expected to carry one warrant to buy 200 shares during the first five years of the bond's life, at a premium over the current share price of about 15 per cent. If all the warrants were exercised, NatWest would issue 12m new shares, just over 3 per cent of its expanding capital. Final terms will be set by lead manager Handelsbank, a NatWest subsidiary, on July 3.

In the dollar sector, secondary market prices edged higher through the day following the suc-

| BNF Bank bond average |         |      |          |
|-----------------------|---------|------|----------|
|                       | June 27 | 1984 | Previous |
| High                  | 103.594 | 1985 | 103.825  |
| Low                   | 103.596 |      | 98.840   |

cessful U.S. Treasury auction on Wednesday, with some Far Eastern buying seen. The market benefited from a slowing in new issues, with no new floating-rate notes appearing.

The day's best-received issue was that for Statoil, a \$170m issue for five years with a 10 per cent coupon and 100 1/2 per cent pricing, led by Deutsche Bank with Citicorp International Bank and Salomon Brothers International.

Despite the lack of an explicit government guarantee, the Statoil issue did well, aimed—like the Barclays issue launched later in the day—at a market for five-year paper.

In West Germany, the Bundesbank announced that nine D-Mark Eurobonds totalling DM 1.83bn, were planned for July comprising seven straight issues and two dual-currency bonds. If issued, these would be the first of their kind launched in West Germany following the May 1 liberalisation of German capital markets, which has opened the way to a number of new borrowing instruments.

Principal or interest repayments of a dual-currency bond are in another currency, probably dollars, offering buyers an exchange-rate play. The July total is expected to be

absorbed easily by the market. Significantly, no floating-rate or zero-coupon issues, also allowed only since May 1, are planned in July following a patchy response to the first ventures. Of the planned total for June, three still remain to be issued, although at least two are believed to have been dropped from this month's calendar.

The German market moved quietly higher yesterday, helped by downward pressure on short-term interest rates.

The secondary market in Ecu issues also rose yesterday, showing gains of up to 1/4 point.

In Switzerland, Nippon Telegraph and Telephone, which issued a \$100m straight Eurobond earlier this week, yesterday launched a SwFr 150m 10-year issue with an indicated yield of 3 1/2 per cent, led by Union Bank of Switzerland. These are the first issues by the borrower without a guarantee from the Gov-

ernment, which still owns the company but plans to privatise it. Both have been seen as aggressively priced.

Ferrovie, Italy's state railway concern, is making a SwFr 100m eight-year floating-rate issue, expected at 1/4 point above London interbank offered rates (Libor) for six months. The issue is led by Banque Paribas, Kurz Engländer. The issue was in the market in May as a two-tranche deal but was postponed due to Italian legislative changes.

A SwFr 70m convertible issue is planned by Nippon Zeno, a synthetic rubber manufacturer, at five years with an indicated coupon of 1 1/4, led by Credit Suisse.

Kyotaru, a sushi restaurant chain, is making a \$30m 10-year convertible issue, priced as indicated with a 3 1/2 per cent coupon and 5 per cent conversion premium.

International bond service, Page 28

## IMI to raise \$100m

BY PETER MONTAGNON IN LONDON

ISTITUTO Mobiliare Italiano, Italy's state credit institution, is raising \$100m in the Euromarkets through a revolving credit arranged by Sarwa Bank International.

The deal bears what is believed to be a new low on margins for Italian credits, partly reflecting the popularity of IMI as a borrower and partly also the competition facing the Eurocredit market from other instruments, notably Eurobonds.

It carries an annual commitment fee of 10 basis points, and drawn funds will bear interest at a margin of 1/4 point for the first two years rising thereafter to 1/2 point.

The deal is a multicurrency one in which funds can be drawn in currencies other than the dollar, including specifically Ecu and D-Mark. IMI intends to draw half the funds this year and the remainder in 1986.

THIS ANNOUNCEMENT APPEARS AS A MATTER OF RECORD ONLY.



## THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

TÜRKİYE CUMHURİYETİ MERKEZ BANKASI

US \$500,000,000  
7 YEAR MULTIPLE FACILITY

GUARANTEED BY  
THE REPUBLIC OF TURKEY  
TÜRKİYE CUMHURİYETİ

LEAD MANAGED BY

ARAB BANKING CORPORATION (ABC)

CHEMICAL BANK INTERNATIONAL GROUP  
COMPAGNIE LUXEMBOURGEOISE DE LA DRESNER BANK AG  
—DRESNER BANK INTERNATIONAL—

MANUFACTURERS HANOVER LIMITED  
AMERICAN EXPRESS BANK INTERNATIONAL GROUP

BANQUE INDOSUEZ

COMMERZBANK

AKTIENGESellschaft

DEUTSCHE BANK

COMPAGNIE FINANCIERE LUXEMBOURG

LIBYAN ARAB FOREIGN BANK, TRIPOLI

T.C. ZIRAAT BANKASI

UNION BANK OF SWITZERLAND

BANK OF TOKYO INTERNATIONAL LIMITED

—CAPITAL MARKETS GROUP—

CITICORP CAPITAL MARKETS GROUP

GULF INTERNATIONAL BANK B.S.C.

THE NATIONAL BANK OF KUWAIT S.A.K.

BANKERS TRUST INTERNATIONAL LIMITED

BANQUE NATIONALE DE PARIS

CRÉDIT LYONNAIS

IRVING TRUST COMPANY

STANDARD CHARTERED BANK

THE MITSUI BANK, LIMITED

PROVIDED BY

ARAB BANKING CORPORATION (ABC)

CITICORP INTERNATIONAL BANK LIMITED

COMPAGNIE LUXEMBOURGEOISE DE LA DRESNER BANK AG

—DRESNER BANK INTERNATIONAL—

GULF INTERNATIONAL BANK B.S.C. MANUFACTURERS HANOVER TRUST COMPANY

AMERICAN EXPRESS INTERNATIONAL BANKING CORPORATION BANKERS TRUST COMPANY

BANQUE NATIONALE DE PARIS COMMERZBANK INTERNATIONAL S.A.

DEUTSCHE BANK

COMPAGNIE FINANCIERE LUXEMBOURG

LIBYAN ARAB FOREIGN BANK, TRIPOLI

T.C. ZIRAAT BANKASI

THE MITSUI BANK, LIMITED

AUSTRALIA : EUROPEAN FINANCE CORPORATION N.V.

MIDLAND BANK PLC ASSOCIATED JAPANESE BANK (INTERNATIONAL) LIMITED

CREDITANSTALT-BANKVEREIN FIRST NATIONAL BANK OF BOSTON

THE INDUSTRIAL BANK OF KUWAIT K.S.C.

BANCA COMMERCIALE ITALIANA, NEW YORK BRANCH

BANK OF BAHRAIN AND KUWAIT B.S.C.

AL SAUDI BANK

THE RIGGS NATIONAL BANK OF WASHINGTON, D.C. SAUDI AMERICAN BANK

UNION BANK OF NORWAY LTD. UNITED GULF BANK (B.S.C.) J.C.

AGENT BANK

CITICORP INTERNATIONAL BANK LIMITED

APRIL 1985







# Say **TOTAL** first

Compagnie française des pétroles,  
the parent company of the **TOTAL** group, is changing its name to  
**TOTAL COMPAGNIE FRANÇAISE DES PETROLES.**

## **A great French and international oil company**

**TOTAL** Compagnie française des pétroles has been producing and selling oil and oil products for 50 years. **TOTAL** has 45 000 men and women working for it on the 5 continents and in 75 countries.

## **TOTAL is concerned with all sources of energy**

**TOTAL** Compagnie française des pétroles is also a multienergy group concerned with all the major forms of energy. Thanks to its highly skilled teams, it is able to adapt to every type of situation, and to offer solutions for every type of energy problem, wherever it occurs and whether it be in an individual, institutional or national framework.

## **and is preparing for the future**

**TOTAL** Compagnie française des pétroles is a group with long-term aims, a group that is preparing for the changes of tomorrow. The innovative capacity of its specialist teams, the positions it has established in advanced technology, its willingness to take risks and the precision of its economic decision-making mean that it can command the future.

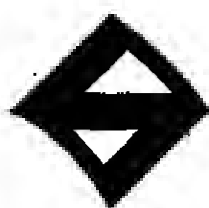
**TOTAL** is not dreaming of the future, but building it.

**TOTAL COMPAGNIE FRANÇAISE DES PETROLES**



This announcement appears as a matter of record only.

June 1985



## GABINETE DA ÁREA DE SINES

(An agency of the Republic of Portugal)

### US\$30,000,000

#### Medium Term Loan

Arranged by:  
BANK OF TOKYO INTERNATIONAL LIMITED  
Capital Markets Group

Lead Managed by:  
BANK OF TOKYO INTERNATIONAL LIMITED  
Capital Markets Group

BURGAN BANK S.A.K. - KUWAIT  
COPENHAGEN HANDELSBANK A/S - London Branch (Licensed Deposit Taker)  
THE HOKKAIDO TAKUSHOKU BANK, LIMITED  
THE TAIYO KOBE BANK, LIMITED

Co-Managed by:  
ISTITUTO BANCARIO SAN PAOLO DI TORINO

Provided by:  
The Bank of Tokyo, Ltd.  
Burgan Bank S.A.K. - Kuwait  
Copenhagen Handelsbank A/S - London Branch (Licensed Deposit Taker)  
The Hokkaido Takushoku Bank, Limited  
The Taiyo Kobe Bank, Limited  
Istituto Bancario San Paolo di Torino - London Branch  
Banca Nazionale dell'Agricoltura S.p.A. - London Branch (Licensed Deposit Taker)  
The Rural and Industries Bank of Western Australia  
The Yasuda Trust and Banking Company, Limited

Agent  
The Bank of Tokyo, Ltd.



## INTL. COMPANIES & FINANCE

# Simex tries prize-giving to help put business on winning course

BY CHRIS SHERWELL IN SINGAPORE

NINE MONTHS after the Singapore International Monetary Exchange (Simex) started financial futures trading, Mr Ng Kok Song, its chairman, has given the first official verdict on its growth so far. His conservative judgment—"satisfactory"—is echoed by market users.

Simex is Asia's first financial futures exchange and is unique in having a "mutual offset" link with the Chicago Mercantile Exchange, an arrangement which paves the way for round-the-clock global futures trading. Like all futures exchanges, Simex's principal purpose is to offer an opportunity for hedgers to manage risk.

When it opened last September, Simex offered a three-month Eurodollar interest rate contract and a U.S. dollar-D-mark foreign currency contract. Two months later trading began in a second currency contract, for the U.S. dollar against the yen. All three financial instruments followed the start of gold futures trading in Singapore some six years earlier.

Figures for the number of contracts traded show an underlying growth over the first eight months, despite a seasonal hiccup in December and other dips in reaction to specific market factors. Total daily volume topped 2,000 by January, and the aim is 4,000 before the end of the year. Last Friday was Simex's best single day yet, with 4,188.

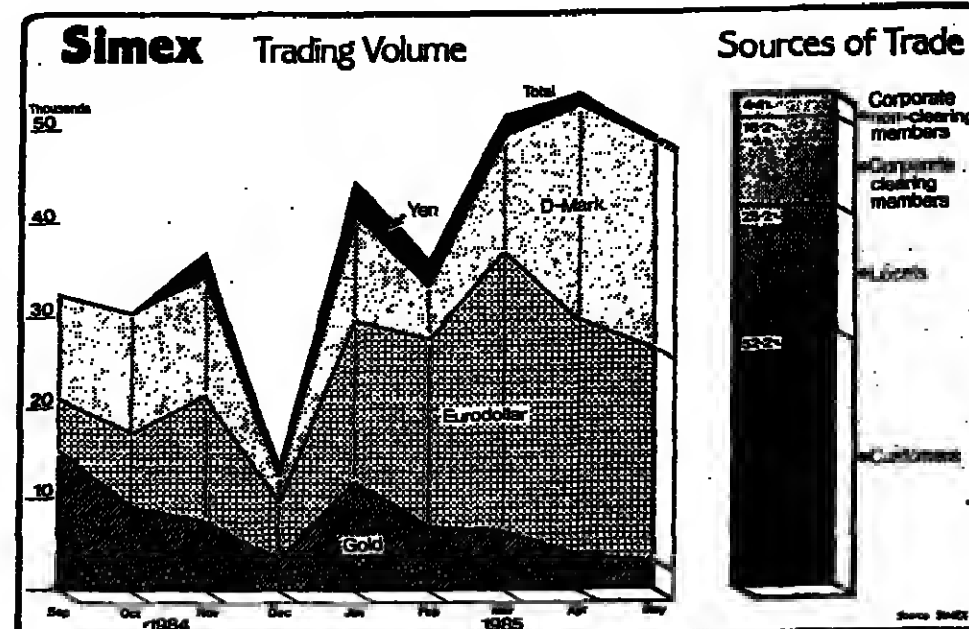
Of this figure, fully 3,207 were accounted for by the Eurodollar contract, and Mr Ng says in Simex's annual report published this week, that this contract has shown the fastest growth. The D-mark contract has shown a "modest success," he says, while the yen and gold contracts have been "disappointing" and "lacklustre."

One experienced analyst of futures markets points out that contracts are most successful when relative volatility is superimposed on what is basically a bullish trend in the traded item.

In the case of Simex, the Eurodollar and D-mark contracts have benefited recently from perceptions that U.S. interest rates and the U.S. dollar may have reversed paths.

In the process banks and investors have tried to hedge their interest rate and exchange rate risks.

By contrast, the yen contract



has attracted less interest, partly because the currency has been more stable than the D-mark, but also because Japanese residents are not yet permitted to deal in foreign futures exchanges. As for the gold contract, this is reckoned to have reflected investors' preference for financial assets.

The different performances neatly illustrate what many Simex participants call its "chicken-and-egg" problem. In the case of the yen and gold, an absence of volatility has dampened interest, but a lack of interest has meant little business can be done. The "locals"—the individual Simex members who stand ready to accept risks others wish to hedge—have gravitated naturally to the Eurodollar and D-mark contracts.

The mutual offset link with Chicago, under which positions opened on one exchange can be closed on the other, was intended, at least from Singapore's point of view, to help remedy this liquidity problem and to judge from the figures it has, Simex says 30 per cent of its trading volume is accounted for by its members executing trades for customers of the Chicago exchange.

Just how well Simex's locals are doing, however, is difficult to gauge. Of the total of 130, 30 to 40 are constantly active in the pits. Others are still learning, while still others have dropped out of sight, apparently holding on to their seats as an investment. Up to half a dozen are reckoned to have lost most or all of their working capital.

According to Mr Ng, if 15-20 locals survive to become seasoned traders in three years' time, "we can count ourselves fortunate." Because so many have already turned out to be inactive, however, the exchange is making available a further 150 seats—on top of the initial 300. All are aimed at attracting new locals.

Simex's next step is to introduce a Japanese stock index futures contract using the Nikkei average of 225 shares quoted on the Tokyo Stock Exchange. This is plainly a less "real" financial futures instrument than the four existing items, and elsewhere such contracts have attracted mostly speculative interest. But that is precisely why it might prove a boost for Simex, because it should stimulate speculative support from locals.

Whether anyone else will be interested is another matter. Currently there are few close watchers of the Japanese stock market in Singapore, while the limited in what they can do abroad. Either way, Simex is planning to charge locals less

to trade exclusively in the stock index contract.

In the meantime, the Singapore Government, ever concerned about the integrity of its financial institutions, is still in the process of drafting special legislation to regulate the futures business in the island state. Simex itself has begun setting up its long-planned compensation fund to protect customers from the default of any Simex member.

Simex is also pressing ahead with its marketing efforts abroad and, more importantly, its general educational efforts at home. In August it is organising a novel two-week open competition, in which participants can deal in the four existing contracts and the biggest profit earner will win a \$810,000 (US\$446,500) cash prize.

According to several Simex users, such wider education and understanding of the exchange and the way it works is desperately needed in Singapore and the rest of Asia if it is to achieve long-term success. Even the normally reticent Mr Ng, who identifies the first priority as developing liquidity in existing contracts, says that in the longer term Simex should strive to be the institutional nucleus attracting trading capital and developing trading expertise in commodities and financial instruments.

### Redemption Notice

## PEUGEOT S.A.

### \$22,500,000 14% Bonds due August 1, 1990

NOTICE IS HEREBY GIVEN, pursuant to the Trust Deed, between Peugeot and The Law Debenture Corporation p.l.c. dated August 8, 1980 under which the above described Bonds were issued, that Citibank, N.A. as Principal Paying Agent, has selected by lot for redemption on August 1, 1985 through the operation of the Sinking Fund, \$1,000,000 principal amount of said Bonds at the Sinking Fund redemption price of 100% of the principal amount thereof, together with accrued interest to the date fixed for redemption. The serial numbers of the Bonds selected by lot for redemption are as follows:

|      |      |      |      |      |      |      |      |       |       |       |       |       |       |       |       |       |       |
|------|------|------|------|------|------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 29   | 1148 | 2157 | 4157 | 6337 | 7438 | 8537 | 9584 | 10737 | 11784 | 12938 | 14129 | 15329 | 16537 | 17429 | 18457 | 19629 | 20638 |
| 37   | 1157 | 2184 | 4184 | 6338 | 7439 | 8538 | 9585 | 10738 | 11785 | 12939 | 14130 | 15330 | 16538 | 17430 | 18458 | 19630 | 20639 |
| 38   | 1184 | 2229 | 4229 | 6348 | 7440 | 8539 | 9586 | 10739 | 11786 | 12940 | 14131 | 15331 | 16539 | 17431 | 18459 | 19631 | 20640 |
| 57   | 1237 | 2237 | 4237 | 6357 | 7441 | 8540 | 9587 | 10740 | 11787 | 12941 | 14132 | 15332 | 16540 | 17432 | 18460 | 19632 | 20641 |
| 64   | 1238 | 2238 | 4238 | 6364 | 7442 | 8541 | 9588 | 10741 | 11788 | 12942 | 14133 | 15333 | 16541 | 17433 | 18461 | 19633 | 20642 |
| 129  | 1245 | 2245 | 4245 | 6371 | 7443 | 8542 | 9589 | 10742 | 11789 | 12943 | 14134 | 15334 | 16542 | 17434 | 18462 | 19634 | 20643 |
| 137  | 1257 | 2254 | 4254 | 6384 | 7444 | 8543 | 9590 | 10743 | 11790 | 12944 | 14135 | 15335 | 16543 | 17435 | 18463 | 19635 | 20644 |
| 148  | 1284 | 2237 | 4237 | 6394 | 7445 | 8544 | 9591 | 10744 | 11791 | 12945 | 14136 | 15336 | 16544 | 17436 | 18464 | 19636 | 20645 |
| 184  | 1329 | 2237 | 4237 | 6404 | 7446 | 8545 | 9592 | 10745 | 11792 | 12946 | 14137 | 15337 | 16545 | 17437 | 18465 | 19637 | 20646 |
| 229  | 1337 | 2238 | 4238 | 6417 | 7447 | 8546 | 9593 | 10746 | 11793 | 12947 | 14138 | 15338 | 16546 | 17438 | 18466 | 19638 | 20647 |
| 237  | 1384 | 2237 | 4238 | 6424 | 7448 | 8547 | 9594 | 10747 | 11794 | 12948 | 14139 | 15339 | 16547 | 17439 | 18467 | 19639 | 20648 |
| 238  | 1429 | 2238 | 4238 | 6437 | 7449 | 8548 | 9595 | 10748 | 11795 | 12949 | 14140 | 15340 | 16548 | 17440 | 18468 | 19640 | 20649 |
| 257  | 1437 | 2429 | 4284 | 6447 | 7450 | 8549 | 9596 | 10749 | 11796 | 12950 | 14141 | 15341 | 16549 | 17441 | 18469 | 19641 | 20650 |
| 284  | 1438 | 2437 | 4429 | 6458 | 7451 | 8550 | 9597 | 10750 | 11797 | 12951 | 14142 | 15342 | 16550 | 17442 | 18470 | 19642 | 20651 |
| 329  | 1448 | 2438 | 4438 | 6468 | 7452 | 8551 | 9598 | 10751 | 11798 | 12952 | 14143 | 15343 | 16551 | 17443 | 18471 | 19643 | 20652 |
| 337  | 1457 | 2439 | 4439 | 6471 | 7453 | 8552 | 9599 | 10752 | 11799 | 12953 | 14144 | 15344 | 16552 | 17444 | 18472 | 19644 | 20653 |
| 338  | 1484 | 2529 | 4529 | 6484 | 7454 | 8553 | 9600 | 10753 | 11800 | 12954 | 14145 | 15345 | 16553 | 17445 | 18473 | 19645 | 20654 |
| 348  | 1529 | 2537 | 4537 | 6494 | 7455 | 8554 | 9601 | 10754 | 11801 | 12955 | 14146 | 15346 | 16554 | 17446 | 18474 | 19646 | 20655 |
| 384  | 1537 | 2538 | 4538 | 6507 | 7456 | 8555 | 9602 | 10755 | 11802 | 12956 | 14147 | 15347 | 16555 | 17447 | 18475 | 19647 | 20656 |
| 437  | 1538 | 2539 | 4539 | 6517 | 7457 | 8556 | 9603 | 10756 | 11803 | 12957 | 14148 | 15348 | 16556 | 17448 | 18476 | 19648 | 20657 |
| 438  | 1548 | 2539 | 4539 | 6524 | 7458 | 8557 | 9604 | 10757 | 11804 | 12958 | 14149 | 15349 | 16557 | 17449 | 18477 | 19649 | 20658 |
| 457  | 1557 | 2537 | 4529 | 6534 | 7459 | 8558 | 9605 | 10758 | 11805 | 12959 | 14150 | 15350 | 16558 | 17450 | 18478 | 19650 | 20659 |
| 484  | 1584 | 2538 | 4537 | 6547 | 7460 | 8559 | 9606 | 10759 | 11806 | 12960 | 14151 | 15351 | 16559 | 17451 | 18479 | 19651 | 20660 |
| 529  | 1637 | 2548 | 4537 | 6557 | 7461 | 8560 | 9607 | 10760 | 11807 | 12961 | 14152 | 15352 | 16560 | 17452 | 18480 | 19652 | 20661 |
| 537  | 1648 | 2549 | 4538 | 6564 | 7462 | 8561 | 9608 | 10761 | 11808 | 12962 | 14153 | 15353 | 16561 | 17453 | 18481 | 19653 | 20662 |
| 538  | 1657 | 2548 | 4537 | 6571 | 7463 | 8562 | 9609 | 10762 | 11809 | 12963 | 14154 | 15354 | 16562 | 17454 | 18482 | 19654 | 20663 |
| 548  | 1684 | 2729 | 4738 | 6584 | 7464 | 8563 | 9610 | 10763 | 11810 | 12964 | 14155 | 15355 | 16563 | 17455 | 18483 | 19655 | 20664 |
| 557  | 1729 | 2737 | 4737 | 6597 | 7465 | 8564 | 9611 | 10764 | 11811 | 12965 | 14156 | 15356 | 16564 | 17456 | 18484 | 19656 | 20665 |
| 584  | 1737 | 2738 | 4738 | 6607 | 7466 | 8565 | 9612 | 10765 | 11812 | 12966 | 14157 | 15357 | 16565 | 17457 | 18485 | 19657 | 20666 |
| 629  | 1738 | 2737 | 4737 | 6617 | 7467 | 8566 | 9613 | 10766 | 11813 | 12967 | 14158 | 15358 | 16566 | 17458 | 18486 | 19658 | 20667 |
| 657  | 1748 | 2784 | 4837 | 6624 | 7468 | 8567 | 9614 | 10767 | 11814 | 12968 | 14159 | 15359 | 16567 | 17459 | 18487 | 19659 | 20668 |
| 684  | 1757 | 2829 | 4838 | 6634 | 7469 | 8568 | 9615 | 10768 | 11815 | 12969 | 14160 | 15360 | 16568 | 17460 | 18488 | 19660 | 20669 |
| 729  | 1784 | 2837 | 4848 | 6647 | 7470 | 8569 | 9616 | 10769 | 11816 | 12970 | 14161 | 15361 | 16569 | 17461 | 18489 | 19661 | 20670 |
| 737  | 1829 | 2838 | 4837 | 6657 | 7471 | 8570 | 9617 | 10770 | 11817 | 12971 | 14162 | 15362 | 16570 | 17462 | 18490 | 19662 | 20671 |
| 757  | 1837 | 2848 | 4884 | 6667 | 7472 | 8571 | 9618 | 10771 | 11818 | 12972 | 14163 | 15363 | 16571 | 17463 | 18491 | 19663 | 20672 |
| 784  | 1838 | 2857 | 4894 | 6674 | 7473 | 8572 | 9619 | 10772 | 11819 | 12973 | 14164 | 15364 | 16572 | 17464 | 18492 | 19664 | 20673 |
| 829  | 1848 | 2864 | 4898 | 6684 | 7474 | 8573 | 9620 | 10773 | 11820 | 12974 | 14165 | 15365 | 16573 | 17465 | 18493 | 19665 | 20674 |
| 837  | 1857 | 2929 | 4897 | 6694 | 7475 | 8574 | 9621 | 10774 | 11821 | 12975 | 14166 | 15366 | 16574 | 17466 | 18494 | 19666 | 20675 |
| 838  | 1884 | 2937 | 4894 | 6704 | 7476 | 8575 | 9622 | 10775 | 11822 | 12976 | 14167 | 15367 | 16575 | 17467 | 18495 | 19667 | 20676 |
| 848  | 1929 | 2938 | 5029 | 6048 | 7137 | 8237 | 9284 | 10387 | 11487 | 12587 | 13687 | 14787 | 15887 | 16987 | 18087 | 19187 | 20287 |
| 857  | 1937 | 2957 | 5037 | 6057 | 7147 | 8247 | 9297 | 10397 | 11497 | 12597 | 13697 | 14797 | 15897 | 16997 | 18097 | 19197 | 20297 |
| 884  | 1938 | 2984 | 5038 | 6068 | 7158 | 8258 | 9308 | 10408 | 11508 | 12608 | 13708 | 14808 | 15908 | 17008 | 18108 | 19208 | 20308 |
| 929  | 1948 | 3037 | 5038 | 6129 | 7257 | 8358 | 9384 | 10438 | 11558 | 12658 | 13758 | 14858 | 15958 | 17058 | 18158 | 19258 | 20358 |
| 937  | 1957 | 3038 | 5057 | 6137 | 7268 | 8369 | 9399 | 10449 | 11569 | 12669 | 13769 | 14869 | 15969 | 17069 | 18169 | 19269 | 20369 |
| 957  | 1984 | 3039 | 5064 | 6148 | 7277 | 8379 | 9409 | 10459 | 11579 | 12679 | 13779 | 14879 | 15979 | 17079 | 18179 | 19279 | 20379 |
| 984  | 2029 | 4037 | 5129 | 6159 | 7288 | 8384 | 9414 | 10464 | 11584 | 12684 | 13784 | 14884 | 15984 | 17084 | 18184 | 19284 | 20384 |
| 1029 | 2037 | 4038 | 5137 | 6229 | 7337 | 8397 | 9467 | 10584 | 11657 | 12784 | 13857 | 14957 | 16057 | 17157 | 18257 | 19357 | 20457 |
| 1037 | 2038 | 4048 | 5137 | 6237 | 7348 | 8398 | 9468 | 10589 | 11658 | 12789 | 13858 | 14958 | 16058 | 17158 | 18258 | 19358 | 20458 |
| 1038 | 2084 | 4057 | 5184 | 6284 | 7348 | 8447 | 9529 | 10637 | 11728 | 12837 | 13948 | 15048 | 16148 | 17248 | 18348 | 19448 | 20548 |
| 1048 | 2129 | 4058 | 5237 | 6289 | 7349 | 8448 | 9530 | 10638 | 11729 | 12838 | 13949 | 15049 | 16149 | 17249 | 18349 | 19449 | 20549 |
| 1057 | 2137 | 4129 | 5257 | 6284 | 7384 | 8457 | 9538 | 10657 | 11738 | 12857 | 13957 | 15057 | 16157 | 17257 | 18357 | 19457 | 20557 |
| 1084 | 2138 | 4137 | 5284 | 6329 | 7428 | 8484 | 9548 | 10684 | 11748 | 12884 | 13968 | 15068 | 16168 | 17268 | 18368 | 19468 | 20568 |
| 1129 | 2148 | 4138 | 5329 | 6337 | 7437 | 8529 | 9587 | 10729 | 11757 | 12899 | 14084 | 15284 | 16384 | 17484 | 18484 | 19584 | 20684 |



**ISSUING AND PAYING AGENT**



## NOTICE OF PARTIAL REDEMPTION

## THE KINGDOM OF DENMARK

Issue of US\$ 250,000,000 12% Notes  
due February 27, 1992  
with 250,000 warrants to subscribe  
12% Notes due February 27, 1992.

Pursuant to paragraph "Redemption and Purchase" of the Terms and Conditions of the Notes, notice is hereby given that as a result of the exercise of Warrants, Notes for the aggregate principal amount of US\$35,000,000 will be redeemable on July 29, 1985 at 101 per cent of their principal amount, together with accrued interest, at US\$35,000,000, 17 per cent of US\$35,000,000 from February 27, 1985 to the date of redemption.

The Notes bearing the following serial numbers have been drawn by lot in the presence of a Notary Public and may be presented to Kreditbank S.A., Luxembourg, 43, Boulevard Royal, Luxembourg or to the other Paying Agents named on the Notes:

00001 00002 00003 00004 00005 00006 00007 00008 00009 00010 00011 00012 00013 00014 00015 00016 00017 00018 00019 00020 00021 00022 00023 00024 00025 00026 00027 00028 00029 00030 00031 00032 00033 00034 00035 00036 00037 00038 00039 00040 00041 00042 00043 00044 00045 00046 00047 00048 00049 00050 00051 00052 00053 00054 00055 00056 00057 00058 00059 00060 00061 00062 00063 00064 00065 00066 00067 00068 00069 00070 00071 00072 00073 00074 00075 00076 00077 00078 00079 00080 00081 00082 00083 00084 00085 00086 00087 00088 00089 00090 00091 00092 00093 00094 00095 00096 00097 00098 00099 00100 00101 00102 00103 00104 00105 00106 00107 00108 00109 00110 00111 00112 00113 00114 00115 00116 00117 00118 00119 00120 00121 00122 00123 00124 00125 00126 00127 00128 00129 00130 00131 00132 00133 00134 00135 00136 00137 00138 00139 00140 00141 00142 00143 00144 00145 00146 00147 00148 00149 00150 00151 00152 00153 00154 00155 00156 00157 00158 00159 00160 00161 00162 00163 00164 00165 00166 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Notes surrendered for redemption must have coupon due February 27, 1986 and subsequent at least.

Interest will cease to accrue on the above drawn Notes on and after July 29, 1985.

Amount remaining outstanding: US\$187,000,000

June 28, 1985

THE FISCAL AGENT  
KRAZIOTERANK  
S.A. Liechtenstein







# Guinness seeks to allay nationalist fears over Bell

Arthur Bell & Son, the Scotch whisky distiller, will continue to be managed from Perth as an autonomous company if Guinness's £295m takeover bid is successful, Guinness pledged in its formal offer document sent out yesterday.

In terms clearly couched to assuage Scottish nationalist sentiment, Guinness said it intended Bell to become, once again, a successful growth company, "successful for investors, Scottish jobs and Scottish exports".

One of Guinness's fears is that the issue of Scottish industrial independence could become the reason for a refusal of the bid to the Monopolies Commission.

Guinness said in its document that Bell would be subject only to overall strategic direction and the normal disciplines of financial reporting.

It argued that Bell had been held back by its inability to market Scotch whisky effectively in the U.S., by its failure to maintain market share at home and by its inability to make any significant profits from its costly acquisitions.

"Bell has been a successful company in the past but has now lost its way," Guinness said. "Unless major changes are made in the way it is managed, Bell's



Mr Ernest Saunders, chief executive of Guinness.

problems will become more extreme and increasingly difficult to resolve."

Guinness said it had faced similar problems in 1981—declining sales of its main brand, inadequate new product development and no clear strategy for the future.

The Guinness management, assembled since 1981, had overcome these problems and could

do the same for Bell, it argued. It described the key benefit of the takeover as the combined ability of the two companies to exploit Bell's potential in overseas markets.

Guinness compared an investment of £1,000 made in September 1981 in Bell, with a notional investment in the FT-Actuaries Brewers and Distillers Index and in Guinness itself. By May 1984 it would have risen to £1,788 in Bell, £2,347 in the index and £5,284 in Guinness.

The decline in the Guinness share price since the bid was announced on June 14 was wiped £2m off the value of the bid. At yesterday's price of 288p, unchanged on the day, the offer of nine Guinness shares for every 10 Bell shares is worth £22p per share.

This was 15p below Bell's closing price of 238p, after a rise of 5p.

The Takeover Panel said yesterday it saw no objection to Morgan Grenfell representing Guinness during the bid battle, despite Morgan's long association with Bell. Bell had complained about Morgan acting for its opponent.

Bell yesterday added S.G. Warburg to the merchant bank armory. It is also represented by Henry Ansbacher and Co.

## MK £2m lower than expected

WITH ANALYSTS expecting above £20m for 1984-85, MK Electric's announcement yesterday of a modest rise in pre-tax profits to £16.1m sent the share price down 20p to 230p.

This was despite a good overseas performance, the likelihood of eliminating losses at the insulators subsidiary in the current year, and the confident tone of chairman Mr David Robertson's statement. The shares later made a partial comeback to close at 230p.

Mr Robertson pointed out that both sales—up from £17.5m to £17.7m—and profits increased against a background of the miners' strike, high interest rates and cutbacks in public expenditure, which combined to produce difficult trading conditions in the UK.

ties are being moved from Kent to north Wales, which the chairman says will ensure lower overall costs. The closure of the Kent premises and the transfer led to a charge of £1.5m below the line (£1.8m charge for deferred tax).

In contrast to the depressed home market, the group experienced a 28 per cent increase in sales overseas to a record £38.1m (£29.7m), representing 30 per cent of group turnover. Most of the growth came in the Middle East, where sales rose from £12.6m to £14.4m.

Despite the disappointing results, and a drop in stated earnings per share from 22.5p to 30.3p, the dividend for the year is lifted from 8.4p to 10.6p per share with a final of 6.8p (6.2p).

respectively over the previous year's record figures. Sales overseas were excellent, particularly in the Middle East.

comment

MK Electric has merged with the corporate through from the electricals and electronics sectors to further develop the market. Outside forecasts had centred around £20m pre-tax and while some uneasiness developed in the last few weeks which undermined the price, the shares still had room to fall a further 10p to 230p yesterday.

The reason for the disappointment can largely be placed on the shoulders of insulators where there was a £0.8m turnaround into the red before rationalisation with Ega. Also it is a fair bet that the profits are a reflection of the new chief executive's broom working overtime. So even with sluggish demand from the local authority sector, profits could come out around £18m to £20m this year. That will not fill with excitement a market which has labelled MK as a mature business, but there cannot be much downside in an historic p/e of 7. MK enjoys a dominant position in its field and comfortably generates cash. With a low rating MK cannot be ruled out as a takeover target although it is difficult to see a predator with sufficiently allied activities to believe two plus two could equal five.

**LADBROKE INDEX**  
938-942 (unchanged)  
Tel: 01-427 4411

## MAI £25m rights to fund U.S. acquisition

By George Graham

Mills & Allen International is buying Ginteco Group, a New York-based corporate bond broker.

The money-broker and financial services group will pay \$20m (£15.5m), and up to \$5.5m more on a sliding scale if Ginteco's annual pre-tax profits over the next three years average more than \$3.95m.

The purchase will be funded by a procedure combining a conventional £25m rights issue with some of the aspects of a vendor placing.

Some 9.53m new ordinary shares are to be issued, and then bought from Ginteco's vendors by Hambros Bank. They will be offered as a rights issue to Mills & Allen shareholders on the basis of two for nine at 285p.

Mr Clive Hollick, group managing director of Mills & Allen, said that it was fair to provide for shareholders to be given an opportunity to subscribe since shares are being issued at a discount.

The acquisition rates Ginteco at 8.4 times earnings on the assumption that the eventual price is \$22.75m. Its net asset value is \$5m.

Mills & Allen will buy at par a further \$12.4m of cash, represented by unsecured loan notes. Of this \$24.4m is believed to be surplus to Ginteco's requirements and will be made available to Mills & Allen.

Ginteco's main business is as an intermediary between dealers in the U.S. corporate bond market where it competes principally with companies such as Mabon Nugent. Mills & Allen's subsidiary, Garbon Gitta, is organising to act as an inter-dealer broker in the London gilt market.

Ginteco made pre-tax profits of \$4.53m in 1984, after adjustment for the release of the chairman's statement from Mr Gavin Kelly, expected shortly before the annual meeting in August.

Never the less, the inference is that, all other things being

## Broken Hill and GE in £165m coal deal

BY GEORGE MILLING-STANLEY

Australia's Broken Hill Proprietary (BHP) has come one step closer to completing the series of deals, costing a total of over U.S. \$2.5bn, which will bring the vast "down-under" coal resources controlled by General Electric of the U.S. into local ownership.

BHP has announced plans to acquire GE's remaining 8.5 per cent equity stakes in two Queensland coal joint ventures for a total of U.S. \$212.5m (£164.7m). The purchase will be effective from the end of this month.

The deal would mark the end of GE's involvement in the Australian coal industry. The U.S. group was left with a residual holding of 15.5 per cent in the two ventures after the original sale to BHP, but Bell Group has already exercised an option to pick up a further 5 per cent, and the outstanding 2 per cent stake is held for \$50m to Pancontinental Mining by the end of this month.

The two operations concerned are the Central Queensland Coal Associates (CQCA) and Gregory joint ventures, both managed by a unit of BHP's Utah International division, which was acquired from GE in April last year. That deal cost BHP \$2.4bn,

and was the largest takeover in Australian history.

The CQCA and Gregory joint ventures operate seven open-cut mines and have a combined annual capacity of 25.5m tonnes of coking coal, which is used in steelmaking.

BHP said that the acquisition would be effected by Utah purchasing all the issued capital of General Electric Minerals, which will be renamed Utah Queensland Coal.

Utah is negotiating with Queensland Coal Trust the possibility of that company acquiring a further 3.25 per cent direct participating interest in the two ventures. The price would be on the same basis as earlier deals, with a figure of \$25m payable for each percentage point stake.

If this deal takes place, Utah's stake in CQCA would rise to 40.25 per cent, and the interest in Gregory would be 32.25 per cent. Other interests in CQCA are held by Queensland Coal Trust 25 per cent, Pancontinental Mining 5 per cent, Mitsubishi Development 12 per cent and Australian Mutual Provident Society 7.5 per cent.

The interests in Gregory would be the same apart from the absence of Mitsubishi.

## Steady outlook for gold

THE GOLD price in terms of South African rands can be expected to remain around current levels, according to the directors' review of operations in the latest annual report from Anglo American Corporation, one of the world's leading producers.

The report offers no forecast of profits for the year to March 31 1986. That will have to wait for the release of the chairman's statement from Mr Gavin Kelly, expected shortly before the annual meeting in August.

Never the less, the inference is that, all other things being

equal, the group's gold operations should do well again this year, at least in local currency terms. The comparative weakness of the rand against the U.S. dollar has ensured a high price in the currency which matters most to South Africa's gold mining industry.

That, in turn, has meant that several of the mines have been able to report record profits in spite of the low dollar gold price, and have accompanied these announcements with increased dividends.

| DIVIDENDS ANNOUNCED   |      |         |      |       |
|---|------|---------|------|-------|
| Allied Colloids   | 1.6  | —       | 1.4* | 2.3   |
| Anglo-Nordic  | 1    | —       | 1    | 1.4   |
| Celestion Ltd   | 1    | Aug 14  | 1    | 1.4   |
| Electric and General  | 2.5  | Aug 20  | 1.8  | 2.6   |
| Fulter, Smith   | 4.1  | Aug 20  | 3.25 | 6.5   |
| Grecham House 2nd Int   | 3    | —       | 2.6  | 4.4   |
| IC Gas  | 9.25 | Aug 9   | 8.5  | 14.5  |
| Kleen-Eze   | 8.25 | —       | 4    | 5     |
| James Latham  | 8.25 | —       | 2.5  | 13.25 |
| Longdon Industrial  | 2    | Oct 19  | 3    | 2     |
| MK Electric   | 6.8  | —       | 6.2  | 10.2  |
| Moorgate Mercantile   | 1.2  | Oct 1   | 0.9  | 1.45  |
| Speybank Int  | 1.2  | July 31 | 2    | 8.4   |
| Transvaal Services  | 6.7  | —       | 6    | 9.57  |
| Transvaal Forie   | 1.27 | Oct 1   | 1.13 | —     |
| Walker and Staff  | 1.7  | —       | 1.68 | 1.7   |
| Wear's Group  | 3    | Aug 9   | 3    | 5.5   |
| Wolverhampton Food Int  | 0.7  | July 31 | —    | —     |
| Dividends shown pence per share net except where otherwise stated.  |      |         |      |       |
| * Equivalent after allowing for scrip issues. † On capital increased by rights and/or acquisition issues. ‡ US\$ stock. |      |         |      |       |
| † For 16 months. ‡ Gross throughout.  |      |         |      |       |

## COMPANY NEWS IN BRIEF

**GRESHAM HOUSE** is raising its dividend from 4p to 4.4p net for 1984, with the payment of a second interim of 3p. Total income moved up to £22.5m (£1.97m), being dividends and interest £245,000 (£590,000), rental income £1.07m (£779,000) and subsidiaries income £834,000 (£551,000). Tax takes £135,000 (credit £58,000) and minorities £17,000 (credit £77,000) leaving £246,000 (£404,000). Earnings are shown at 8.4p (9.8p).

**WHEATWAY WATSON** (Holdings), chairman, engineer and forger, incurred pre-tax losses of £680,000 (£450,000) in the 26 weeks to March 30 1985. Turnover fell to £7.1m (£8.91m). With the miners' strike resolved and the major loss-maker sold, the company is looking to report a trading profit for the second half. Loss per share for the first half amounted to 1.89p (0.16p).

**BRAITHWAITE AND CO** Engineers has suffered a drop in profits from £338,000 to £148,000 in the year ended March 31 1985. The drop is due to the loss of a major contract for the second half. In car delivery division certain contracts were discontinued and associated depots closed. Trading loss was reduced from £738,000 to £138,000; and management accounts for the division show a profit before tax of over £100,000 in the first four months of the current year.

Current year has started with higher level of activity. All companies are concentrating on improving efficiency and increasing volume of sales, and directors hope to report a continuing improvement in overall trading position. They are confident that changes at Structural will bring increasing benefits.

**WESTERN MOTOR** Holdings has cut its loss from £755,000 to £475,000 for 1984, of which £208,000 is applicable to activities terminated or to be terminated. There is no dividend on ordinary, but preference for six months ended June 30, 1985 will be paid. Net asset value is given as £1.13 (£1.67). Turnover was £37.77m (£39.60m) and operating profit £312,000 (£78,000). Need to reduce interest-bearing debt dominated decisions taken, say directors. In car delivery division certain contracts were discontinued and associated depots closed. Trading loss was reduced from £738,000 to £138,000; and management accounts for the division show a profit before tax of over £100,000 in the first four months of the current year.

**ARTHUR HENRIQUES** incurred pre-tax losses of £215,000 in 1984, compared with a profit of £75,000 for the previous year. The result was achieved on turnover up slightly at £15.8m (£4.42m). Losses per share came out at 4.85p (1.18p earnings). The final dividend is passed, as was the interim. As part of the company's reorganisation into an operator of discount retail clothing stores it is proposing to change its name to Top Value Industries.

**KLEEN-EZE HOLDINGS**, maker of energy-saving devices, brushes and cleaning products, returned lower full-year taxable profits of £268,000, against £311,000, on turnover down from £13.8m to £13.15m. Earnings per share for the period to end-March 1985 amounted to 8.6p (7.35p). The final dividend is being held at 4p for an unclassified total of 5p.

We have the pleasure to announce the formation of an

**INTERNATIONAL INSTITUTIONAL INVESTORS' DEPARTMENT**

managed by

**FRANCOIS-XAVIER WEISS**

newly appointed

effective July 1st 1985

**Bankhaus Gebrüder Bethmann**

— Private Bankers since 1748 —

Bethmannstrasse 7-9, 6000 Frankfurt am Main

Telephone: 69/2177-370 - Telex: 4 13674

**TOTAL**

Compagnie Française des Pétroles

Compagnie Française des Pétroles in 1984 Annual Shareholders' Meeting of June 21, 1985

The Ordinary General Shareholders' Meeting of Compagnie Française des Pétroles, held on June 21, 1985 with Mr. François-Xavier Ortoli, President, in the Chair, approved the accounts for 1984. All the resolutions were adopted. This was followed by an Extraordinary General Shareholders' Meeting during which the change in the corporate identity of the Company to Total Compagnie Française des Pétroles was formally approved.

In his address, the President without wishing to pre-empt the results for the year as a whole, stated that first quarter results for 1985 reflected "an encouraging rate of advance". He stressed however that the situation in the refining and marketing sectors gave cause for concern, especially in France, and that the international oil market, after a period of stability in the early part of the year, was now trending downwards.

Mr. Ortoli pointed out that thanks to the recovery begun in 1983 and consolidated in 1984, the investment trust would be intensified in the "upstream" sectors of exploration and field development. It is to be sure in the production of oil and gas that the greater part of the Company's profits is achieved. He went on to emphasise the all-important role, in the unstable market we know today, played by international trading as regards the Company's supplies and outlets.

The President also paid tribute to the work of his predecessor, Mr. René Granier de Lilliac, President of the Company from 1971 to 1984, who "during a period of taxing change showed himself the equal of the founder, Ernest Mercier, and of the man responsible for the rebuilding of the Company again after the war, namely Victor de Metz".

- Highlights of 1984**
- \* **Exploration:** Encouraging results have been obtained in France (Villaperdue, Molint), the British North Sea, Indonesia, the United States as well as in Australia and Angola. Results in the Paris Basin, where the Villaperdue field has now come on stream, are particularly significant. In the United States, the Company has decided to carry out its own exploration programme in conjunction with and, if necessary, in association with its subsidiary TOP/NAI.
  - \* **Development and Production:** Development and production expenditures have increased very sharply, mainly because of the scope of the work carried out in the UK on the large-scale Alwyn North project, in the Netherlands and in Indonesia.
  - \* **Refining and Marketing:** Modernisation of the refining tool has consisted in equipping certain units with conversion facilities and in the scope of the work carried out in the UK to meet the demands of the market. The adaptation and transformation of the distribution network have been stepped up.
  - \* **Financing and Coal:** Persistently soft uranium prices have led the company to maintain its position without seeking to extend it. The same holds good for its coal assets and for the same reasons.
  - \* **Results and Dividend:** CFP (parent company) net earnings in 1984 amounted to 108 billion francs compared with 524 million francs in 1983 and earnings distributed to 953 million francs (compared with 437 million francs). The total yield per share came to 27 francs (dividend plus tax credit). Date of dividend payment: June 28, 1985.

**Some figures on the Group:**

|   | 1983  | 1984  |
|---|-------|-------|
| Resources                                     |       |       |
| Oil (Million Tons)                            | 43    | 45    |
| Gas (Billion m³)                              | 5.7   | 6     |
| Results (Consolidated, in billions of Francs) |       |       |
| Sales   | 139.8 | 158.7 |
| — in France                                   | 55    | 56    |
| — Abroad                                      | 84.8  | 102.7 |
| Cash Flow                                     | 8.1   | 8.7   |
| Earnings                                      | 0.42  | 1.3   |
| Net Investments                               | 6.8   | 7     |

The brochure "Compagnie Française des Pétroles and the Total Group in 1984" is available in English and French from Service Diffusion, 5 Rue Michel-Ange, 75761 Paris Cedex 16, France.

Compagnie Française des Pétroles

has changed its name to

**Total Compagnie Française des Pétroles**

Total Compagnie Française des Pétroles has become the new corporate identity of Compagnie Française des Pétroles. This decision was taken, following a recommendation of the Board of Directors, by an Extraordinary General Meeting of Shareholders held on June 21 subsequent to the Ordinary General Meeting. Total has for the last thirty years been the trademark of the Group in France and abroad. It is also a means of identification used to designate the majority of the Group's affiliates, irrespective of the sector—exploration, production, refining or marketing—to which they belong. Lastly, it is the name by which the Group is known as a whole.

The Group's parent company left it could not stand aside from this development, and therefore decided to add Total to its name, in order to adapt to the realities of economic life and to reinforce the image of a united, easily recognizable and cohesive group.

**AEGON**

Insurance Group

AEGON nv established at The Hague

US \$25,000,000

7% convertible subordinated debentures due 1988/1982 AEGON nv

We hereby announce that as a consequence of the split of AEGON nv ordinary shares of Dfl. 10.00 into ordinary shares of Dfl. 5.00 with effect from June 14, 1985, the conversion price according to the meaning of article VIII of the Trust Agreement of June 15, 1977, should be altered to 83.51 shares per debenture of US \$1,000 nominal (previously 41 7/8).

The Hague, 28th June 1985

AEGON Insurance Group - International growth from Dutch roots

The Executive Board

**Extel**

**ACHIEVE HIGHEST PROFIT**

**Extracts from the Annual Report for the year ended 31st March 1985**

Profit before taxation for the year increased to £10,896,000, the highest level achieved by the Group.

**Sports Services**

Sports news services enjoyed another year of profitable progress as they continued to adapt to the needs of a changing market.

**Financial and Business Services**

Year of high achievement in these businesses as they developed to serve a rapidly growing sector of the economy.

**Printing**

Burrows Printing Group excelled with superb turnover and profit figures.

**Advertising and Public Relations**

All parts of the Royds Advertising Group contributed to a record year in turnover and rate of growth. Operating profit nearly doubled.

**Publishing**

Benn Brothers' profit again rose substantially and in two years has more than doubled.

**Computer Systems**

Digital Microsystems in the U.K. had a year of rapid expansion, sound progress and good profit although there was a setback in the U.S.

**Future**

"The Directors are underlining their confidence in the future by recommending an increase in the final dividend."

Alan Brooker  
Alan Brooker, Chairman

For a copy of the Annual Report please write to The Secretary, Extel Group PLC, Extel House, East Harding Street, London EC4P 4AB.

**Extel**



## THE SCOTTISH AGRICULTURAL SECURITIES CORPORATION P.L.C.

The Fifty-second Annual General Meeting of Shareholders of The Scottish Agricultural Securities Corporation plc was held within the Registered Office of the Corporation on 27 June 1985. Mr Alexander J. Reid, Senior General Manager (Banking) of The Royal Bank of Scotland plc, Chairman of the Corporation, presided and, in moving the adoption of the Report and Accounts, said:

Last year, I am pleased to report, saw an increase in loans completed from £980,000 to £1,047,000. Premature repayments fell from £1,175,000 to £826,000, and net new lending amounted to £762,000. For the entire financial year, indeed from 20 October 1983 to the date of this Report, the Corporation's rate of interest has remained unchanged at 12½%. The Directors felt that it was correct to hold the rate despite the marginally higher average base rate pertaining during the year and, in fact, the profit before tax only decreased from £717,000 to £673,000. In view of the reduction in the rate of tax, the retained profit, after payment of a dividend of 5% was reduced from £373,000 to £354,000.

The past year has seen the first repayment of an overdraft loan on maturity but this type of repayment will not have a significant effect on the Corporation until 1990.

A further £1m Debenture Stock was redeemed in September last year. This Stock had an interest rate of 3½% and the removal of this Stock at a favourable rate of interest also had an effect on the profit. The next redemption of Debenture Stock is not due until 1988.

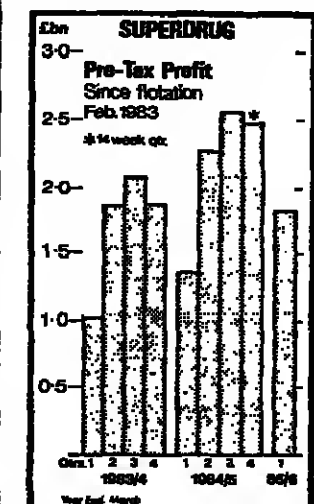
The Directors of the Corporation constantly review the general situation in agriculture, particularly fluctuations in land values, when considering applications for loans. It is not felt to be part of the Corporation's function to lend money without being assured that the borrower can make a living as well as service and repay his loan. It was with regret that we received the resignation of Mr James M. Stewart from the Board of the Corporation following his premature retirement through ill-health from Clydesdale Bank PLC. Mr Stewart's farming background was of great assistance to the deliberations of the Board. We were pleased to welcome to his place Mr Robert A. Laurence, Deputy Chief General Manager of the Clydesdale Bank PLC.

The Report and Accounts were formally approved and adopted and a dividend of 5% duly declared.

## Superdrug 32% ahead at £1.8m

PROFITS GROWTH at Superdrug Stores continued apace during the opening quarter of the 1985-86 year with pre-tax figures pushing ahead by over 32 per cent.

On a turnover £7.7m higher at £25.47m they surged from £1.38m to £1.83m. However, tax took £482,000 more at £712,000.



to leave the attributable balance almost unchanged at £1.12m. The taxable results for the quarter to June 1 1985 included net interest income of £187,000 (£110,000).

For the previous 53 week period the group, which operates from over 210 retail drug stores, returned a record £5.74m pre-tax, with the final quarter contribution up from £1.87m to £2.5m.

Superdrug planned for at least 40 new branches this year together with the opening of a second distribution centre of over 200,000 sq ft, securing the

long term growth of the group. In their annual statement the Goldstein brothers, Peter and Ronald, joint chairmen, said the cost of financing the increased level of the group's capital investment programme, together with the initial commissioning and start-up costs relating to new facilities, would probably have an adverse impact on the rate of profits growth during the current year.

However, they were more confident than ever about Superdrug's overall position in the High Street, and optimistically looked for a record year for both sales and profits.

The group came to market via an offer for sale of shares at 175p each early in 1983. Yesterday, the shares closed 3p higher at 408p.

### comment

Superdrug's first quarter is marked by a drop in operating margins against the level for last year as a whole and the provision for a higher than expected tax charge. There is an element of seasonality in the margin—it traditionally improves as the year progresses. But this year will be different due to the high costs of starting up the northern distribution centre in Wakefield. As a result last year's 6.3 per cent margin will certainly not be achieved and it could be a struggle to reach 6 per cent. The uncertainty on the tax charge plus concern at the cost of the warehouse opening and stocking up makes it hard to see the current rating of over 20 times earnings being maintained. For the full year the analysts are sticking to 310m pre-tax which at 408p up 3p has the shares trading on a prospective multiple of over 23 (39 per cent tax charge).

## West's Group moves ahead

A BETTER second half, as expected, has enabled the West's Group International to push up its pre-tax profit from £693,000 to £914,000 for the year ended March 31 1985. There were good performances from the manufacturing division companies and from Piling and Construction and Engineering Design.

The directors conceded that recovery in profitability is slower than they would like, but express their confidence that core businesses are sound and that the worst is now behind.

Turnover came to £45.29m (£32.75m) and trading profit to £1.12m (£917,000).

There were extraordinary losses £577,000 (profit £248,000)

mainly resulting on withdrawal from uneconomic locations overseas. Further overhead reductions have been made and the borrowing position remains good. The dividend is again 5.5p net, the final being 3p.

HUMPHRIES HOLDINGS, the developer and printer of colour film, which is in the BET group, incurred a higher taxable loss of £312,000, against £315,000, for the year to end-March 1985 despite an increase in turnover from £12.32m to £14.22m. Attributable losses soared to £2.46m (£97,000) after an extraordinary debit of £2m (£494,000). There is again no dividend.

## UK COMPANY NEWS

### Dominic Lawson on the rise and fall of small oil prospectors

## Falcon's shadow over the City



Mr Daniel Pena, the chairman and founder of Great Western Resources.

THE RECENT collapse in the share price of Falcon Resources has cast a shadow over the City of London's latest fad—small oil exploration companies specialising in the U.S. onshore scene.

Following the successful issue last year of Petrol the City has been deluged with prospectuses from entrepreneurs who quickly realised that while U.S. investors have had some bitter experiences funding drilling in the States the British market is relatively untested.

Great Western Resources and New London Oil have followed Petrol and Falcon, together with Aberdeen American Petroleum and Charterhall North America.

This summer they are set to be joined by Sapphire Petroleum, Exploration Company of Louisiana, Owl Creek and Clinton Oil.

The shares of Falcon have fallen from a 1985 high of 174p to around 70p. This may mean that the new vehicles will not get the ratings to which they aspired, although they will probably still get a better reception here than in the U.S., where drilling rates have halved in four years but where small oil company bankruptcies are still a regular occurrence.

The current fashion may sound like a repeat of the boom and

the result. This method has attracted investment from some leading City institutions but Mr David Gray, an analyst at brokers James Capel, disapproves of the practice.

"The method," he says, "involves those who put up the cash taking all the downside risk and getting very little upside even if everything goes according to plan."

Another broker points out that the companies tend to build in assumptions of no increase in operating costs and administrative expenses and often make insufficiently clear the future development costs. Much of the most well-traded U.S. acreage is almost bound to contain oil or gas which for various geological reasons may be very expensive to produce.

But Mr Daniel Pena, the 39-year-old founder and chairman of Great Western Resources, is adamant that his company is different from all the rest.

One City broker, who prefers

Mr Pena is an entrepreneur of classic American design. Of Hispanic origin, he earned his spurs in Wall Street, becoming a vice-president at Bear Stearns and Co in 1977 at the tender age of 32.

He founded Great Western in 1982 with only \$800 of capital but last August his advisers, Brown Shipley and Brokers Greenwell, floated the stock.

The prospectus valued Great Western's oil and gas assets at \$44.3m compared with a flotation value of \$32m. As befits a man of such substance, Mr Pena is now the proud owner of Guthrie Castle, near Ayrshire in Scotland.

He insists that the City of London is lacking the wrong U.S. onshore plays and should be investing in Great Western.

Most of the others are entrepreneurial fogs to make a turn as we say in Wall Street. But no one in the City knows how to read a reserve report.

One City broker, who prefers

### FIRST-HALF NET INCOME AT \$1.3m

Great Western Resources earned net income of \$1.31m (£1.04m) in the six months to March 31 1985, compared with \$229,000 last time. Earnings per share amounted to 6.5 cents (5.2p).

There is a first interim dividend of 1.43p per share (about 1p net for UK resident shareholders) and a total of not less than 2.85p gross is forecast. The directors say the payment of an interim at this early stage in the company's development, is an expression of their confidence in the future.

\$885,000) of which \$2.62m came from oil and gas. Expenses took \$1.31m (\$469,000) and tax provision was \$238,000 (£187,000).

The interim figures include two months' earnings from the properties acquired from Whitaker.

In the second half period, the company will have the benefit of a full six months' cash flow and earnings from the Whitaker acquisition. Production is expected to rise to 3,000 BOEPD by the end of the current year, compared with a present figure of around 2,000 BOEPD.

to remain anonymous, argues that Mr Pena has every reason to have little respect for the City since it paid more than Great Western was worth when the company came to the market.

The \$44m valuation of Great Western's assets were based almost entirely on a valuation of the company's acreage in the DJ Basin in Wyoming, which the company was in the process of buying for only \$2.2m. The valuation of the acreage was based on an aggressive exploration campaign to drill 42 wells by this September.

Great Western now says that it will have drilled only 14 wells in the basin by that time, thus delaying the subject of the exercise and the basis of valuation—cash flow.

The original Great Western assets valued at \$44m are now worth only about \$28m, concedes Mr Charles Soladay, the company's finance director, on the valuation basis used in the prospectus. This is in part because the prospectus assumed a gross selling price of \$30 a barrel, in part because the delayed drilling programme has reduced the accounted value of future cash flow.

But Mr Pena is undaunted. "My aim is to make Great Western one of the 50 biggest

U.S. oil and gas companies within 10 years." He aims to achieve this by a whirlwind of deals as the companies which took on debt to expand into the U.S. oil scene at a time when the oil price was about \$35 a barrel have become distressed sellers of acreage and production.

Great Western is placing \$10m worth of shares with City institutions to raise cash to buy the U.S. oil and gas assets of Whitaker, a big U.S. health care company. The deal was approved this week.

The group also appears to have seen up a \$6m deal to buy the U.S. oil and gas assets of an unnamed UK company. He claims it has turned down the chance to buy numerous other UK-owned oil assets.

Following the share shake out at Falcon, Great Western and other similar concerns shortly to arrive on the stock market will be subject to an unusual degree of scrutiny in the City.

The next year may determine who has the better judgment in the City of London, the oil analysts or the punters.

## 1984 ANNUAL REPORTS available now...

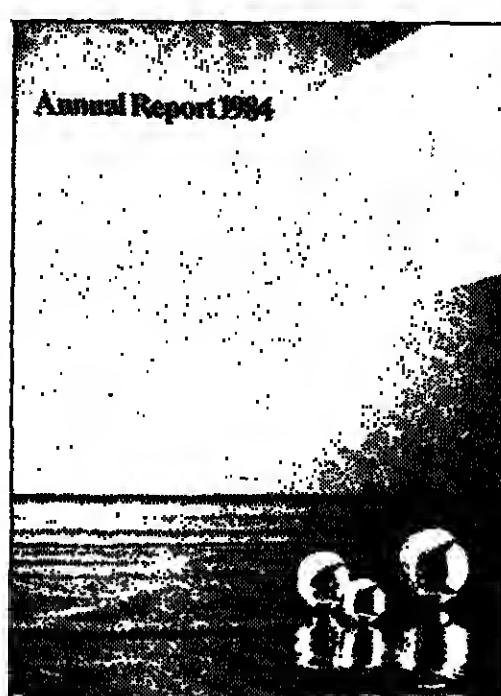
### SKF

World market leader in rolling bearings, is an international Group of some 190 companies with 70 manufacturing plants.

The SKF Group also comprises special steel, cutting tools and several other precision engineering products.

The SKF Group profit rose 1984 to 1,339 million SEK from 604 million SEK in 1983. Sales increased in the same period with 10 per cent to 17,843 million SEK.

Sales by product category was: rolling bearings 66.7 per cent, special steel 15.5 per cent, cutting tools 3.9 per cent and other products 13.9 per cent.



### SCA

One of Europe's biggest forest industry companies. Pulp, paper, sawn timber, corrugated board, disposable hygiene products, machinery for pulp and paper industry, hydro-electric power. 1984 was a good year for SCA. The consolidated net sales increased with 18% to SEK 11.5 billion and the earnings improved with 51% to SEK 1.5 billion. The return on capital employed rose from 15% to 19%.

Investments amounted to SEK 1.1 billion. For the period January 1 to April 30, 1985, SCA reports a continued high profitability. During that period earnings amounted to SEK 473 million. For 1985 as a whole the earnings are not expected to reach 1984 level but return on capital employed should remain satisfactory.



### SAAB-SCANIA AB

Saab-Scania develops, manufactures and markets advanced transportation equipment and systems. Products include passenger cars, heavy trucks, buses, commercial and military aircraft and satellites. We also manufacture industrial process products and heating equipment etc.

1984 was an eventful year. We introduced a new car generation — the Saab 9000. We also introduced a new truck and bus series — the Scania 92. Deliveries to customers of the airliner Saab-Fairchild 340 and the anti-ship missile RBS15 started.

Also from a financial point of view, 1984 was a record year for the Saab-Scania Group. Sales, income, profitability and solvency improved once more.

Consolidated sales rose by 25 per cent to SEK 25,956 m. The Group was able to increase its profit to SEK 2,555 m before appropriations and taxes, corresponding to 9.8% of total sales. Pre-tax return on total assets, rose to 16.4%. The Group has 43,000 employees.

### SANDVIK AB

The Sandvik Group is one of Sweden's largest exporting corporations, active worldwide through more than 110 companies in over 40 countries. In 1984 the Group employed 24,000 people, the turnover amounted to well over 11 billion Swedish kronor and the profits to 1,013 million.

Sandvik is the world's largest producer of cemented-carbide products such as tools and tooling systems for chipmilling machining and rock-drilling applications. The company is a leading manufacturer of tube, strip and wire in stainless and high-alloy special steels, saws and other tools as well as conveying and processing systems.

The Group's activity is concentrated to seven different business areas: Sandvik Coromant, Sandvik Rock Tools, Sandvik Hard Materials, Sandvik Steel, Sandvik Saws and Tools, Sandvik Process Systems and Sandvik Electronics.

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## THE ROYAL BANK OF CANADA

## NOTICE OF PARTIAL REDEMPTION

TO THE HOLDERS OF U.S. \$100,000 12 3/4% DEPOSIT NOTES DUE JANUARY 28, 1992 OF THE ROYAL BANK OF CANADA

NOTICE IS HEREBY GIVEN, pursuant to the terms and conditions of the 12 3/4% Deposit Notes due January 28, 1992 (the "12 3/4% Deposit Notes") that U.S. \$38,770,000 aggregate principal amount of the 12 3/4% Deposit Notes of the Royal Bank of Canada (hereinafter referred to as "the Bank") in coupon bearer form in the denomination of U.S. \$5,000 each bearing the under-mentioned distinguishing numbers, namely:

|    |     |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
|----|-----|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 1  | 522 | 969  | 1484 | 1929 | 2360 | 2807 | 3262 | 3728 | 4202 | 4686 | 5105 | 5536 | 6011 | 6434 | 6888 | 7338 | 7760 | 8235 | 8687 | 9210 | 9694 | 10182 | 10642 | 11078 | 11562 | 12016 | 12481 | 12904 | 13374 | 13826 | 14287 | 14683 | 15116 | 15585 | 16034 | 16469 | 16905 | 17309 | 17747 | 18200 | 18684 | 19161 | 19673 |
| 2  | 524 | 971  | 1485 | 1931 | 2367 | 2813 | 3268 | 3733 | 4207 | 4691 | 5110 | 5541 | 6016 | 6440 | 6894 | 7344 | 7767 | 8239 | 8694 | 9217 | 9701 | 10189 | 10649 | 11085 | 11569 | 12020 | 12486 | 12911 | 13381 | 13833 | 14289 | 14685 | 15118 | 15587 | 16036 | 16471 | 16907 | 17311 | 17750 | 18203 | 18688 | 19165 | 19677 |
| 3  | 526 | 973  | 1487 | 1933 | 2369 | 2815 | 3270 | 3735 | 4211 | 4695 | 5112 | 5543 | 6020 | 6444 | 6898 | 7348 | 7771 | 8243 | 8697 | 9221 | 9703 | 10191 | 10651 | 11087 | 11571 | 12023 | 12490 | 12913 | 13383 | 13835 | 14291 | 14687 | 15120 | 15589 | 16040 | 16475 | 16911 | 17315 | 17752 | 18205 | 18690 | 19167 | 19679 |
| 4  | 528 | 975  | 1489 | 1935 | 2371 | 2817 | 3272 | 3737 | 4213 | 4697 | 5114 | 5545 | 6022 | 6448 | 6902 | 7352 | 7773 | 8244 | 8699 | 9223 | 9705 | 10193 | 10653 | 11089 | 11573 | 12025 | 12492 | 12915 | 13385 | 13837 | 14293 | 14689 | 15122 | 15591 | 16042 | 16477 | 16913 | 17317 | 17754 | 18207 | 18692 | 19169 | 19681 |
| 5  | 530 | 977  | 1491 | 1937 | 2373 | 2819 | 3274 | 3739 | 4215 | 4701 | 5120 | 5551 | 6024 | 6448 | 6904 | 7354 | 7775 | 8246 | 8700 | 9225 | 9707 | 10195 | 10655 | 11091 | 11575 | 12027 | 12494 | 12917 | 13387 | 13839 | 14295 | 14691 | 15124 | 15593 | 16044 | 16479 | 16915 | 17319 | 17756 | 18211 | 18696 | 19171 | 19683 |
| 6  | 532 | 979  | 1493 | 1939 | 2375 | 2821 | 3276 | 3741 | 4217 | 4703 | 5122 | 5553 | 6026 | 6450 | 6906 | 7356 | 7777 | 8248 | 8702 | 9227 | 9709 | 10197 | 10657 | 11093 | 11577 | 12029 | 12496 | 12919 | 13389 | 13841 | 14297 | 14693 | 15126 | 15595 | 16046 | 16481 | 16921 | 17321 | 17758 | 18213 | 18698 | 19173 | 19685 |
| 7  | 534 | 981  | 1495 | 1941 | 2377 | 2823 | 3278 | 3743 | 4219 | 4705 | 5124 | 5555 | 6028 | 6452 | 6908 | 7358 | 7779 | 8250 | 8704 | 9229 | 9711 | 10199 | 10659 | 11095 | 11579 | 12031 | 12500 | 12921 | 13391 | 13843 | 14301 | 14697 | 15128 | 15597 | 16048 | 16483 | 16923 | 17323 | 17760 | 18215 | 18700 | 19177 | 19687 |
| 8  | 536 | 983  | 1497 | 1943 | 2379 | 2825 | 3280 | 3745 | 4221 | 4707 | 5126 | 5557 | 6030 | 6454 | 6910 | 7360 | 7781 | 8252 | 8706 | 9231 | 9713 | 10201 | 10661 | 11097 | 11581 | 12033 | 12502 | 12923 | 13393 | 13845 | 14303 | 14701 | 15130 | 15601 | 16050 | 16485 | 16925 | 17325 | 17762 | 18217 | 18702 | 19181 | 19689 |
| 9  | 538 | 985  | 1499 | 1945 | 2381 | 2827 | 3282 | 3747 | 4223 | 4709 | 5128 | 5559 | 6032 | 6456 | 6912 | 7362 | 7783 | 8254 | 8708 | 9233 | 9715 | 10203 | 10663 | 11101 | 11583 | 12035 | 12504 | 12925 | 13393 | 13847 | 14305 | 14703 | 15132 | 15603 | 16052 | 16487 | 16927 | 17327 | 17764 | 18219 | 18704 | 19183 | 19691 |
| 10 | 540 | 987  | 1499 | 1947 | 2383 | 2829 | 3284 | 3749 | 4225 | 4711 | 5130 | 5561 | 6034 | 6458 | 6914 | 7364 | 7785 | 8256 | 8710 | 9235 | 9717 | 10205 | 10665 | 11103 | 11585 | 12037 | 12506 | 12927 | 13395 | 13849 | 14307 | 14705 | 15134 | 15605 | 16054 | 16489 | 16929 | 17329 | 17766 | 18221 | 18706 | 19185 | 19693 |
| 11 | 542 | 989  | 1501 | 1949 | 2385 | 2831 | 3286 | 3751 | 4227 | 4713 | 5132 | 5563 | 6036 | 6460 | 6916 | 7366 | 7787 | 8258 | 8712 | 9237 | 9719 | 10207 | 10667 | 11105 | 11587 | 12039 | 12508 | 12929 | 13397 | 13851 | 14309 | 14707 | 15136 | 15607 | 16056 | 16491 | 16931 | 17331 | 17768 | 18223 | 18710 | 19187 | 19695 |
| 12 | 544 | 991  | 1503 | 1951 | 2387 | 2833 | 3288 | 3753 | 4229 | 4715 | 5134 | 5565 | 6038 | 6462 | 6918 | 7368 | 7790 | 8260 | 8714 | 9239 | 9721 | 10209 | 10669 | 11107 | 11589 | 12041 | 12509 | 12931 | 13399 | 13853 | 14311 | 14709 | 15138 | 15609 | 16058 | 16493 | 16933 | 17333 | 17770 | 18225 | 18712 | 19189 | 19697 |
| 13 | 546 | 993  | 1505 | 1953 | 2389 | 2835 | 3290 | 3755 | 4231 | 4717 | 5136 | 5567 | 6040 | 6464 | 6920 | 7370 | 7792 | 8262 | 8716 | 9241 | 9723 | 10211 | 10671 | 11109 | 11591 | 12043 | 12510 | 12933 | 13401 | 13855 | 14313 | 14711 | 15140 | 15611 | 16060 | 16495 | 16935 | 17335 | 17772 | 18227 | 18714 | 19191 | 19699 |
| 14 | 548 | 995  | 1507 | 1955 | 2391 | 2837 | 3292 | 3757 | 4233 | 4719 | 5138 | 5569 | 6042 | 6466 | 6922 | 7372 | 7794 | 8264 | 8718 | 9243 | 9725 | 10213 | 10673 | 11111 | 11593 | 12045 | 12512 | 12935 | 13403 | 13857 | 14315 | 14713 | 15142 | 15613 | 16062 | 16497 | 16937 | 17337 | 17774 | 18229 | 18716 | 19193 | 19701 |
| 15 | 550 | 997  | 1509 | 1957 | 2393 | 2839 | 3294 | 3759 | 4235 | 4721 | 5140 | 5571 | 6044 | 6468 | 6924 | 7374 | 7796 | 8266 | 8720 | 9245 | 9727 | 10215 | 10675 | 11113 | 11595 | 12047 | 12514 | 12937 | 13405 | 13859 | 14317 | 14715 | 15144 | 15615 | 16064 | 16501 | 16939 | 17339 | 17776 | 18231 | 18718 | 19195 | 19703 |
| 16 | 552 | 999  | 1511 | 1959 | 2395 | 2841 | 3296 | 3761 | 4237 | 4723 | 5142 | 5573 | 6046 | 6470 | 6926 | 7376 | 7798 | 8268 | 8722 | 9247 | 9729 | 10217 | 10677 | 11115 | 11597 | 12049 | 12516 | 12939 | 13407 | 13861 | 14319 | 14717 | 15146 | 15617 | 16066 | 16503 | 16941 | 17341 | 17778 | 18233 | 18720 | 19197 | 19705 |
| 17 | 554 | 1001 | 1513 | 1961 | 2397 | 2843 | 3298 | 3763 | 4239 | 4725 | 5144 | 5575 | 6048 | 6472 | 6928 | 7378 | 7800 | 8270 | 8724 | 9249 | 9731 | 10219 | 10679 | 11117 | 11599 | 12051 | 12518 | 12941 | 13409 | 13863 | 14321 | 14719 | 15148 | 15619 | 16068 | 16505 | 16943 | 17343 | 17779 | 18235 | 18722 | 19201 | 19707 |
| 18 | 556 | 1003 | 1515 | 1963 | 2399 | 2845 | 3300 | 3765 | 4241 | 4727 | 5146 | 5577 | 6050 | 6474 | 6930 | 7380 | 7802 | 8272 | 8726 | 9251 | 9733 | 10221 | 10681 | 11119 | 11601 | 12053 | 12519 | 12943 | 13411 | 13865 | 14323 | 14721 | 15150 | 15621 | 16070 | 16507 | 16945 | 17345 | 17780 | 18237 | 18724 | 19203 | 19709 |
| 19 | 558 | 1005 | 1517 | 1965 | 2401 | 2847 | 3302 | 3767 | 4243 | 4729 | 5148 | 5579 | 6052 | 6476 | 6932 | 7382 | 7804 | 8274 | 8728 | 9253 | 9735 | 10223 | 10683 | 11121 | 11603 | 12055 | 12520 | 12945 | 13413 | 13867 | 14325 | 14723 | 15152 | 15623 | 16072 | 16509 | 16947 | 17347 | 17782 | 18239 | 18726 | 19205 | 19711 |
| 20 | 560 | 1007 | 1519 | 1967 | 2403 | 2849 | 3304 | 3769 | 4245 | 4731 | 5150 | 5581 | 6054 | 6478 | 6934 | 7384 | 7806 | 8276 | 8730 | 9255 | 9737 | 10225 | 10685 | 11123 | 11605 | 12057 | 12522 | 12947 | 13415 | 13869 | 14327 | 14725 | 15154 | 15625 | 16074 | 16511 | 16951 | 17349 | 17784 | 18241 | 18728 | 19207 | 19713 |
| 21 | 562 | 1009 | 1521 | 1969 | 2405 | 2851 | 3306 | 3771 | 4247 | 4733 | 5152 | 5583 | 6056 | 6480 | 6936 | 7386 | 7808 | 8278 | 8732 | 9257 | 9739 | 10227 | 10687 | 11125 | 11607 | 12059 | 12524 | 12949 | 13417 | 13871 | 14329 | 14727 | 15156 | 15627 | 16076 | 16513 | 16953 | 17351 | 17786 | 18245 | 18730 | 19209 | 19715 |
| 22 | 564 | 1011 | 1523 | 1971 | 2407 | 2853 | 3308 | 3773 | 4249 | 4735 | 5154 | 5585 | 6058 | 6482 | 6938 | 7388 | 7810 | 8280 | 8734 | 9259 | 9741 | 10229 | 10689 | 11127 | 11609 | 12061 | 12526 | 12951 | 13419 | 13873 | 14331 | 14729 | 15158 | 15629 | 16078 | 16515 | 16955 | 17353 | 17788 | 18247 | 18732 | 19211 | 19717 |
| 23 | 566 | 1013 | 1525 | 1973 | 2409 | 2855 | 3310 | 3775 | 425  |      |      |      |      |      |      |      |      |      |      |      |      |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |



U.S. \$100,000,000



**Nacional Financiera, S.A.**  
(A National Credit Institution and Financial Agent of the  
Federal Government of the United Mexican States)

Floating Rate Notes Due 1986

In accordance with the provisions of the Notes, notice is hereby given that for the six month interest period from 28th June, 1985 to 30th December, 1985 the Notes will carry an interest rate of 8 1/2% per annum. The interest amount payable on the relevant interest payment date which will be 30th December, 1985 is U.S. \$4,368.06 for each Note of U.S. \$100,000.

Credit Suisse First Boston Limited  
Agent Bank

U.S. \$20,000,000

**IBJ**

**The Industrial Bank of Japan, Limited**  
London

Floating Rate London-Dollar Negotiable Certificates of Deposit due 30th July, 1986

Notice is hereby given that in accordance with Clause 3 of the Certificates, the Issuer will exercise the Call Option and redeem all the outstanding Certificates at their principal amount on 30th July, 1985 when interest on the Certificates will cease to accrue.

Repayment of principal together with accrued interest will be made upon presentation of the Certificates at the offices of the Issuer on 30th July, 1985.

Credit Suisse First Boston Limited  
Agent Bank

## UK COMPANY NEWS

## ERF cuts loss and sees 'promising outlook'

WITHOUT THE burden of exchange loss, the ERF (Holdings) group of heavy commercial vehicle and plastic moulded components manufacturer has returned to profit in the second half.

The outlook for the current year is promising and the directors expect to see a modest increase in demand. They will review the dividend policy during the year, having due regard to current trading conditions. The preference was last paid on October 31 1982.

In the first half of the year ended March 30 1985 the group suffered an exchange loss of £1.16m and this pushed it into a loss of £1.09m. For the year overall the exchange debit came to £1.15m, so the group benefited and reduced the loss to £444,000. That compares with a profit of £421,000 in the previous year.

Turnover for the year rose from £60.65m to £72.78m and the profit before interest and exchange loss was £2.14m,



Mr Peter Foden, chairman

against £1.8m. Mr E. P. Foden, the chairman, says the home market continues to be difficult, but total unit sales increased by

35 per cent over 1983-84. Substantial improvements were achieved in export trading, mainly in Africa and the Middle East.

The introduction of the CP range has been a highly successful, with excellent response from customers. The plastics side enjoyed a good year and sales volumes were up by 18 per cent, further growth is expected this year.

Mr Foden says a new range of vehicles will be introduced gradually over the next two or three years, which will create new opportunities at home and abroad.

In 1984-85 redundancy costs of £12,000 (£18,000) have been charged in arriving at the trading figure for ERF. Interest payable was up to £1.4m (£1.27m).

A tax credit of £6,000 (£256,000) there is a loss per share of 6.05p (earnings 9.35p) and fully diluted 5.72p (9.19p). No provision has been made in the accounts for the unpaid preference dividends, and the arrears amount to £226,000.

## Longton profits double to £1.2m

AFTER A number of troubled years Longton Industrial Holdings is returning to profit levels it enjoyed towards the end of the 1970s.

On turnover up by 8 per cent from £46.13m to £50.05m, pre-tax profits were more than doubled from £555,000 to £1.15m. An unchanged final dividend of 2p net is proposed, making a total of 5p (2p).

The directors of the Stoke-based transport, distribution and crane hire group say that the results show a continued improvement.

All division traded profitably, with steel stockholding and engineering supplies producing an excellent performance which continued to show growth. The optimism about the motor division was well founded.

They add, however, that severe competition in the haulage and distribution activities resulted in disappointing figures for the transport division. The board has taken corrective steps.

Tax too £222,000, compared with £111,000 for 1983-84 when there was an extraordinary debit of £54,000. Attributable profits came out of £920,000 (£498,000).

With preference dividend payments of £96,000 (£103,000) earnings per ordinary share came out at 13.1p, up by 2 1/2 times on the 5.4p for the previous year. The ordinary dividends took £188,000 (£126,000).

In the 1979-80 year, the company made a pre-tax profit of £1.91m but the following year plunged into losses of £623,000 with problems experienced throughout the group, particularly in its vehicle and plant distribution and crane hire company.

## Anglo Nordic lifts profits to £1.3m

WITH MOST of its subsidiaries performing as or better than planned, pre-tax profits of Anglo Nordic Holdings rose to £1.32m for the year to end-March 1985, with the bulk, some £1.09m, coming in the second half.

For the 16-month period to end-March 1984 the taxable result was £1.06m.

Turnover for the year amounted to £54.3m (£54.09m for 16 months), and the directors of this Harrogate-based engineering and property company say that the current year has started well with order books in several subsidiaries at record levels.

At end-March the total order book stood at nearly £18m, compared with £11.4m a year earlier. The directors report that during the year excellent progress was made on product development and in upgrading production methods and techniques.

The final dividend is held at 1p, which brings the total to 1.4p (same for 16-month period). Net earnings per 5p share are shown as 8.7p (4.1p) basic, and 5p (4.5p) fully diluted.

In line with the group's policy of building up its aerospace and defence interests, which last year resulted in sales in excess of £12m, or 22 per cent of group turnover, it bought HML (Engineering) last month for £181,000 cash, and assumed liability for bank indebtedness of £50,000.

HML, which manufactures hydraulic rigs and trolleys for servicing both civil and military aircraft, had net tangible assets of £529,000.

Anglo Nordic is now one of the largest manufacturers of aircraft ground support equipment in the world, the directors say, and currently sells to 100 airlines and operators in over 50 countries. In a full year they estimate that HML should add £4.5m to the turnover of this activity.

The Braby Economic Appliances division was sold in May for £107,000, as the manufacture of gas fires does not fit in with group strategy.

The tax charge amounted to £226,000 (£228,000), and there were extraordinary debits of £334,000 (£280,000).

## Speyhawk leaps to £1.2m and prospects encouraging

Speyhawk, property development and construction concern, has achieved pre-tax profits from £1.2m in the six months to March 31 1985, on turnover of £38.07m, against £24.82m.

The result is largely attributed to the completion of the Lombard Street development in the period. The directors say this import development has been let in its entirety to the Trustee Savings Bank.

After tax of £458,000 (£257,000) earnings per 10p share climbed from 3.6p to 7.1p. The net interim dividend is raised to 2.52p (2p) net—last year's final was 6.4p.

The directors say the group's development programme is proceeding well and prospects for

growth in activity and earnings are encouraging.

The company has completed and let an industrial development in Hemel Hempstead and a small office development in Old Isleworth. There are a number of other buildings which have been completed and where lettings are currently under negotiation.

Negotiations for the scheme in Brighton were completed and the whole of the scheme, having a value of £25m, has been forward funded. The financial arrangements involve Britel, Brighton Council, Ramada and the English Tourist Board.

Ramada will manage the hotel as part of its "Renaissance" chain and the company will retain a majority interest in the hotel operating company.

## Beaufort House redevelopment

A new company has been formed to carry out a redevelopment of Beaufort House, Aldgate, London, the former headquarters of the Peninsular & Oriental Steam Navigation Company.

Known as Beaufort House Development, it has been formed jointly by P & O and Stockley, the property group, who have each invested £5m. The new company will acquire the long lease of the property held by P & O for £15m.

Beaufort House comprises 170,000 sq ft of net lettable space but the site would be capable of supporting a new office building in excess of 200,000 sq ft. Funding for the development has yet to be arranged and various schemes are currently under consideration.

## Second-half profits slip but Latham final raised

DESPITE almost unchanged pre-tax profits, James Latham is proposing to raise its final dividend by 10 per cent, giving a total for the year which is 13 per cent ahead of that for 1983-84.

On turnover up by £1.7m to £35.33m, pre-tax profits, for the year to the end of March 1985, rose from £1.65m to £1.66m. Directors are proposing a final payment of 8.25p net per £1 share (7.5p), making a total for the year of 13.25p (11.75p).

Mr Michael Latham, chairman of the East London-based timber merchant, says that given the range of difficulties encountered during the latter part of the

year the results were satisfactory. In the second half pre-tax profits fell by 17 per cent from £747,000 to £621,000, on turnover which was little changed.

He adds that the problems were short-term but their effects have persisted into the present year.

The pre-tax figure was struck after depreciation of £223,000 (£244,000) and higher interest payments at £611,000, compared with £535,000.

Tax took £371,000, against £228,000 for 1983-84 when there was also an extraordinary item of £47,000. Dividends accounted for £413,000 (£375,000). Earnings per share came out at 47.9p (53.5p).

New Issue

All of these bonds having been sold, this announcement appears as a matter of record only

June 25, 1985

**SCN**

**Société Luxembourgeoise de Centrales Nucléaires**  
Société Anonyme, Luxembourg

DM 150,000,000

7 1/4 % Bearer Bonds of 1985/1995

secured by assignment of the rights under a LEASE CONTRACT  
not terminable during the life of these Bonds with

**RWE**

**Rheinisch-Westfälisches Elektrizitätswerk AG**  
Essen, Federal Republic of Germany

- Stock Index No. 475935 -

Issue Price: 99 1/2 %

**Dresdner Bank**  
Aktiengesellschaft

**Deutsche Bank**  
Aktiengesellschaft

CSFB-Effectenbank AG

Banque Paribas Capital Markets

Goldman Sachs International Corp.

Kreditbank International Group

**Morgan Grenfell & Co.**  
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ABD Securities Corporation  
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Aktiengesellschaft  
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Bank of Tokyo International Limited  
Bankers Trust International Limited  
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Banque Française du Commerce Extérieur  
Banque Générale du Luxembourg S.A.  
Banque Indosuez  
Banque Internationale à Luxembourg S.A.  
Banque Nationale de Paris  
Banque Worms  
Barclays Merchant Bank Limited  
Baring Brothers & Co. Limited  
Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft  
Bayerische Landesbank Girozentrale  
Aktiengesellschaft  
Joh. Berenbers, Goslar & Co.  
Bergon Bank  
Berliner Bank Aktiengesellschaft  
Berliner Handels- und Frankfurter Bank  
Caisse des Dépôts et Consignations  
Chase Manhattan Capital Markets Group  
Chase Manhattan Limited  
Chemical Bank International Group  
CIBC Limited  
CIBC Capital Markets Group  
Commerzbank Aktiengesellschaft  
County Bank Limited  
Crédit Commercial de France

Crédit Industriel et Commercial de Paris  
Crédit Lyonnais  
Crédit du Nord  
Creditanstalt-Bankverein  
Dai-ichi Kangyo International Limited  
Daiwa Europe Limited  
Den Danske Provisbank A/S  
Den norske Creditbank  
Deutsche Girozentrale  
- Deutsche Kommunalbank -  
DSL Bank Deutsche Siedlungs- und Landesrentenbank  
DG Bank Deutsche Genossenschaftsbank  
Eneklida Securities  
Skandinaviska Enskilda Limited  
European Arab Bank  
European Banking Company Limited  
Generale Bank  
Genossenschaftliche Zentralbank AG  
Vienna  
Girozentrale und Bank der österreichischen Sparkassen  
Aktiengesellschaft  
Gruenewald & Co.  
Hambros Bank Limited  
Hessische Landesbank - Girozentrale -  
Hill Samuel & Co. Limited  
Industriebank von Japan (Deutschland)  
Aktiengesellschaft  
Istituto Bancario San Paolo di Torino  
Kansai-Osaka-Paniki  
Kidder, Peabody International Limited  
Kleinwort, Benson Limited  
Kreditbank N.V.  
Kuwait Foreign Trading Contracting & Investment Co. (S.A.K.)  
Kuwait International Investment Co. S.A.K.  
Kuwait Investment Company (S.A.K.)  
Landesbank Rheinland-Pfalz  
- Girozentrale -  
Lazard Frères et Cie.  
Lloyds Bank International Limited  
LTCB International Limited  
Manufacturers Hanover Limited  
Merck & Co.

Merrill Lynch Capital Markets  
B. Metzger soel, Sohn & Co.  
Mitsubishi Finance International Limited  
Samuel Montagu & Co. Limited  
Morgan Guaranty Ltd  
Morgan Stanley International  
The Nikko Securities Co. (Europe) Ltd  
Nippon Credit International (HK) Ltd.  
Nippon Credit International (HK) Ltd.  
Nippon Credit International (HK) Ltd.  
Norddeutsche Landesbank Girozentrale  
Österreichische Länderbank  
Aktiengesellschaft  
Sal. Oppenheim jr. & Cie.  
Orion Royal Bank Limited  
PK Christiana Bank (UK) Limited  
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Schweizerische Hypotheken- und Handelsbank  
Smith Barney, Harris Upham & Co.  
Incorporated  
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Svenska Handelsbanken Group  
Swiss Bank Corporation International  
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Union Bank of Switzerland (Securities) Limited  
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S. G. Warburg & Co. Ltd.  
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Westdeutsche Landesbank Girozentrale  
Westfälische Bank Aktiengesellschaft  
Dean Witter Capital Markets International  
Yomachi International (Europe) Limited

New Issue

The announcement appears as a matter of record only

June 26, 1985

**ÖIAG**

**Österreichische Industrieverwaltungs-  
Aktiengesellschaft**  
Vienna

DM 150 000 000

7 % Bearer Bonds of 1985/1995

unconditionally and irrevocably guaranteed by the

Republic of Austria

- Stock Index No. 457960 -

Offering Price: 99 1/2 %

**Dresdner Bank**  
Aktiengesellschaft

**Westdeutsche Landesbank**  
Girozentrale

**Bayerische Landesbank**  
Girozentrale

**Berliner Handels-  
und Frankfurter Bank**

**Creditanstalt-Bankverein**

**Citibank**  
Aktiengesellschaft

**Generale Bank**

**Girozentrale und Bank der  
österreichischen Sparkassen**  
Aktiengesellschaft

**Industriebank von Japan  
(Deutschland)**  
Aktiengesellschaft

**Morgan Guaranty GmbH**

**Salomon Brothers International**

**Zentralsparkasse und  
Kommerzbank Wien**

ABD Securities Corporation  
Algemeine Bank Nederland N.V.  
Amro International Limited  
Arab Banking Corporation -  
Daus & Co. GmbH  
Banca Commerciale Italiana  
Banca del Gottardo  
Banca Nazionale del Lavoro  
BankAmerica Capital Markets Group  
Bank für Gemeinwirtschaft  
Aktiengesellschaft  
Bank Leu International Ltd.  
Bank of Tokyo International Limited  
Bankers Trust GmbH  
Banque Bruxelles Lambert S.A.  
Banque Française du Commerce Extérieur  
Banque Générale du Luxembourg S.A.  
Banque Internationale à Luxembourg S.A.  
Banque Nationale de Paris  
Banque Worms  
Barclays Merchant Bank Limited  
Baring Brothers & Co. Limited  
Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft  
Bayerische Landesbank  
Aktiengesellschaft  
Joh. Berenbers, Goslar & Co.  
Bergon Bank  
Berliner Bank Aktiengesellschaft  
Berliner Handels- und Frankfurter Bank  
Caisse des Dépôts et Consignations  
Caisse Nationale de Crédit Agricole  
Chase Manhattan Capital Markets Group  
Chase Manhattan Limited  
Chemical Bank International Group  
CIBC Limited  
Commerzbank Aktiengesellschaft  
County Bank Limited  
Crédit Commercial de France  
Crédit Lyonnais  
Crédit Industriel et Commercial de Paris  
Crédit du Nord  
Creditanstalt-Bankverein  
Dai-ichi Kangyo International Limited  
Daiwa Europe (Deutschland) GmbH

Den Danske Bank af 1871 Aktieselskab  
Den norske Creditbank  
Deutsche Bank Aktiengesellschaft  
Deutsche Girozentrale  
- Deutsche Kommunalbank -  
DSL Bank Deutsche Siedlungs- und Landesrentenbank  
DG Bank Deutsche Genossenschaftsbank  
Dominion Securities Pitfield  
Eneklida Securities  
Skandinaviska Enskilda Limited  
Die Erste Österreichische Spar-Casse  
Euromobiliare S.p.A.  
European Arab Bank  
European Banking Company Limited  
First Interstate Limited  
Genossenschaftliche Zentralbank AG  
Vienna  
Goldman Sachs International Corp.  
Hambros Bank Limited  
Hessische Landesbank - Girozentrale -  
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Mitsubishi Finance International Limited  
Samuel Montagu & Co. Limited  
Morgan Grenfell & Co. Limited  
Morgan Stanley International  
The Nikko Securities Co. (Europe) Ltd.

Nippon Credit International (HK) Ltd.  
Nippon Credit International (HK) Ltd.  
Norddeutsche Landesbank Girozentrale  
Österreichische Postsparkasse  
Österreichische Credit-Institut  
Aktiengesellschaft  
Sal. Oppenheim jr. & Cie.  
Orion Royal Bank Limited  
PK Christiana Bank (UK) Limited  
Postbank  
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Reuschel & Co.  
N. M. Rothschild & Sons Limited  
Schneider & Co. Bankaktiengesellschaft  
J. Henry Schroder Wagg & Co. Limited  
Schweizerische Hypotheken- und Handelsbank  
Shearson Lehman Brothers International  
Smith Barney, Harris Upham & Co.  
Incorporated  
Société Générale  
Sumitomo Finance International  
Svenska Handelsbanken Group  
Swiss Bank Corporation International  
Limited  
Swiss Volksbank  
Trinkaus & Burkhart  
Union Bank of Switzerland (Securities) Limited  
Verband Schweizerischer Kantonalbanken  
Verein- und Westbank Aktiengesellschaft  
M. M. Warburg-Brinckmann, Wirtz & Co.  
S. G. Warburg & Co. Ltd.  
Westdeutsche Genossenschafts-Zentralbank a.G.  
Westfälische Bank Aktiengesellschaft  
Dean Witter Capital Markets International Ltd.  
Wood Gundy Inc.  
Yamaichi International (Europe) Limited



## FT COMMERCIAL LAW REPORTS

## Tax loss surrender lawful on balance of benefit

**CHARTERHOUSE INVESTMENT TRUST LTD v TEMPEST DIESELS LTD**  
Chancery Division: Mr Justice Hoffmann: June 20 1985

A SURRENDER of tax losses by one company to others in the same group as part of a transaction enabling the shares to be sold and resold at a very low price, does not constitute provision of financial assistance by the company to the ultimate purchaser if, having regard to the transaction as a whole, the balance of financial advantage lies in the company's favour.

Mr Justice Hoffmann so held when giving judgment for the plaintiff, Charterhouse Investment Trust Ltd ("CIT"), in an action claiming specific performance of an agreement whereby the defendant, Tempest Diesels Ltd, agreed to surrender tax losses to companies within the Charterhouse Group.

Section 54 of the Companies Act 1948 (repealed by the 1981 Act) provided that it shall not be lawful for a company to give, whether directly or indirectly, any financial assistance for the purpose of or in connection with a purchase of its own shares or the shares of any other company.

It was found that in 1979 and 1980, the tax losses for those two years were £58,461 and £230,329 respectively.

At December 31 1980 its balance sheet showed a long term loan of £300,000 from its parent company, Charterhouse Corporate Investments ("CCI"). Its overdraft with Williams and Glyn's stood at £282,009.

In early 1981 the trading results were worse than in the year before. A decision was taken to close the company if no purchaser could be found. Redundancy notices were issued and the Group advanced £75,000 to enable Tempest to pay compensation.

One of the employees marked for redundancy was the Finance and Sales Director, Mr Allam. He thought that with mere enterprise management Tempest could be made profitable, and decided to offer to buy its entire issued share capital. He raised £150,000 for that purpose and arranged for Barclays Bank to provide new credit facilities for Tempest under his control.

Mr Allam negotiated the terms of acquisition with the Group. By August 12 most of the terms had been agreed. The Group was to subscribe £700,000 for a rights issue of new shares in Tempest. The money would be

used to pay off the overdraft and all but £150,000 of the indebtedness to CCI. Mr Allam would then buy all the shares in Tempest for £1.

Of the £150,000 indebtedness repaid on completion of the transaction, £100,000 would be repaid by Tempest by Mr Allam. Another £50,000 would be repaid a year after completion. Finally, Tempest would, on the second anniversary after completion, pay a sum equal to the material cost of such of its stock as it had sold in the first year, or £80,000, whichever was the less.

It was agreed that Tempest's managing director should be made redundant and that Charterhouse would repay to Tempest the compensation to which he became entitled. That amount was £200,000. Also Tempest was to covenant that for two years after completion it would not carry on various kinds of business carried on by other CIT subsidiaries.

So that the Group could realise a capital loss for tax purposes, it was decided that CIT should sell the Tempest shares to another group company, CIT, which would then sell them to Mr Allam.

On August 20 1981 the transaction was substantially completed. There was a slight difficulty when it was found that the tax losses for 1979 and 1980 were £58,461 and £230,329 respectively. It was found that the £780,000 subscribed for new shares was not sufficient to repay the CCI loan in full. To overcome that CCI agreed to waive the excess, amounting to £10,266.

After Mr Allam assumed control Tempest's fortunes at once began to mend. In the eight months to August 31 1981 it made a trading loss of £247,787. In the remaining four months of the year it made a profit of £68,969. In 1982, 1983 and 1984, it made trading profits of £134,562, £104,588 and £103,000 respectively.

By a letter signed by Mr Allam on Tempest's behalf at the completion meeting on August 20, it was agreed that the tax losses for the years 1979 and 1980 would be surrendered to the Group. In the present action members of the Group claimed specific performance of that agreement.

Tempest's main defence was that the agreement was unenforceable because it contravened section 54 of the Companies Act 1948, which was in force at the time when it was made. Mr Justice Hoffmann found that the agreement was a net transfer of value

which reduced the price Mr Allam would have had to pay for the shares if the transaction as a whole had not taken place. In addition to the share subscription monies, Tempest derived substantial benefits from the principal agreement.

First, the conversion of the terms on which the loan was repayable must have conferred a substantial benefit on Tempest. Second, CCI made no charge for interest on its 1981 loan. Third, the Group had agreed to pay redundancy compensation to the managing director. Fourth, the Group agreed to pay the £780,000 capital duty payable by Tempest on the £780,000 share issue in August 1981. Fifth, CCI had waived £10,266 of its debt to enable Tempest to pay its overdraft.

Against those benefits to Tempest, the first was the covenant restraining it for two years from carrying on certain kinds of business. That must have been of some value to the Group. The other burden was the surrender of the tax losses. It was clear that entitlement to those tax losses would be of substantial value to Tempest. Their value in August 1981 was a very different matter. At that time Tempest's future was uncertain. Mr Allam was confident that it could be made profitable, but on an objective appraisal of its prospects at that time, one could not have assumed that it was bound to succeed.

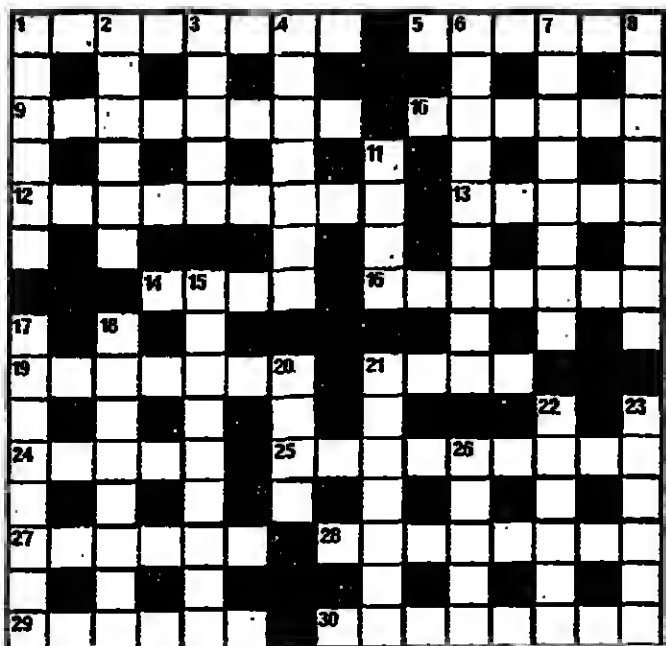
If it failed the 1979-80 tax losses would be worthless. If it recovered, the benefit of the surrender would accrue only at an uncertain future date. There was no evidence that they could be sold to a third party for ready money.

The effect of the transaction as a whole, ignoring the effect of the £780,000 subscription, clearly constituted financial assistance being given to Tempest. The purpose of putting it into a state in which Mr Allam would buy the shares for £1, and did not involve Tempest giving financial assistance to anyone.

Even if the transaction had involved a net transfer of value from Tempest to the Group, Tempest could not have been said to have given financial assistance. It was no more than a change in the character of the assets being sold.

**CIT: Charles Purle**  
**For Tempest: Oliver Weaver**  
**OC (Rush Stacey, agents for**  
**Slapton & Son, Stamford)**  
**By Rachel Davies**  
**Barister**

## F.T. CROSSWORD PUZZLE No. 5,755



- ACROSS**
- Set off for deed in time (5)
  - Supply a leading French car (6)
  - Give information about a group moving rapidly (8)
  - Uncle's first seen in clothing for imprisonment (8)
  - Severed eccentric Italian leader sitting in seat (9)
  - Disual doctor gets attention (5)
  - For example, the centre-forward in central (4)
  - Wandering in poor Carrie started talking (7)
  - His bleachers must be paid for (7)
  - This bird is an unusually odd duck (4)
  - Beheaded the chaps, with a girl to follow (5)
  - Badly maul some union leader thrown into tomb (9)
  - Nete two people learning to drive in New Road (6)
  - The dug was seated between two men (8)
  - Modified Ulster core (6)
  - As Bet's terribly outsize, get the building material (8)
- DOWN**
- Don't start moving trees—it's a waste (6)
  - Fly South-East after test manoeuvre (6)
  - Rover, with ne master, wagged tail (5)
  - The heartless Mrs Reagan's period of holding office (7)
  - Went down and discovered woolly deer (8)
  - Te Peter Ceek, e musical drama (8)
  - Boy stands up girl—a shameful thing (8)
  - Around October 3 what's to be paid for the holiday (4)
  - After Pentecost be set up everything for the British Government (9)
  - Present aim is to go in and get the criminal (8)
  - Cheers, moving close to embrace spell on (8)
  - Break in, thanks to me (4)
  - Man's man (7)
  - Describe being in charge in one part of the store (6)
  - Could be sad about people getting compensation (8)
  - Held forth gold blend tea (5)



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|------------------------|-------------------------------|--|-----------------------------------|
| <b>Assur. Co. Ltd.</b> | <b>Cornhill Insurance PLC</b> | <b>Growth &amp; Sec. Life Ass. Soc. Ltd.</b> | <b>Legal &amp; General (U.A.)</b> |
| 87                     | 57 Lombard, Offshore          | 48, London From Exchange. E1 6EU             | Kingswood House, King's           |
| 01-534 5544            | Ferry Rd June 20 1977         | 0493 68161                                   | 01-377 1122                       |
| -280.6                 | 186.5                         | -11.5  |                                   |
| 295.6                  |                               | Phonix Finance                               |                                   |
| -0.7                   |                               | 190.39                                       |                                   |

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| Royal Trust International Fd. Mgmt. Ltd.(x) | S.E. Warburg & Co. Ltd. and subsidiaries | 01-760 2233 |
| PO Box 244, St. Helier, Jersey.             | 32, King William St, EC4R 9AS            | +010        |
| 0534 27441                                  |  |             |
| Saving Inst. Inc. Fd.                       | Energy Corp.                             | 35C 67      |
| 0 096                                       | 0 174                                    | 18 37       |
| 1 240                                       | 0 77                                     | 18 37       |
| International Fd.                           | Invest. Grouped Inc. 14                  | 31B 89      |
| 0 077                                       | 0 174                                    | 31B 89      |
| Investment Fd.                              | Swedish Ship 36                          | 31B 89      |
| 0 077                                       |  |             |
| Prices on June 19. First listing June 26.   | 39-41, Broad Street, St. Helier, Jersey  | 35 41       |
|   | Invest. Grouped Inc. 25                  | 31B 89      |
|   | Swedish Ship 36                          | 31B 89      |
|   |  | +017        |

[illegible]

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| 25 | 14 |
| 11 | 56 |

of Options traded is given on the  
Stock Exchange Report Page.



## COMMODITIES AND AGRICULTURE

## U.S. farm Bill caught by conflict of interests

By Nancy Dunne in Washington

CONGRESSIONAL subcommittee members are moving at a snail's pace on the 1985 Farm Bill as farm state legislators strive to make U.S. agricultural exports more competitive while protecting farmer income.

This week, a House subcommittee voted to raise the target prices which provide subsidies, but to award them to farmers for only half their previous output. The theory is that farmers will then cut their production, knowing that only a portion of the crop will bring subsidies, and will save some land and save on planting expenses.

The same subcommittee agreed to drop the loan rate, which supports U.S. prices, by 5 per cent both next year, and in the years to come.

The panel endorsed the new "market loan" concept which has won some support in both houses. It would allow farmers to pay back their loans for less than they borrowed if market prices drop. However, the subcommittee said the difference between the loan rate and pay-back must be no more than 60 cents a bushel.

## Milk support price reduced

WASHINGTON—The national support price for U.S. milk will be reduced to \$11.6 per cwt from \$12.1 from July 1, Mr John Block, U.S. Agriculture Secretary, announced.

The secretary said the support price is being reduced under current law which authorises a reduction on July 1 if net price support purchases by the Commodity Credit Corporation (CCC) over the next 12 months are estimated to exceed five billion lbs of milk equivalent.

Reuter

## Brazil coffee controls set to boost exporters' costs

By Andrew Gowers

THE Brazilian authorities were yesterday preparing to announce tighter controls on coffee stocks held within the country, in a move which could significantly boost exporters' costs.

Coffee traders in Sao Paulo and Santos expect the change to take effect in the new crop year starting on July 1, for which the state-run Brazilian coffee institute is due to open export registrations today.

Under the new plan traders would be required to match each bag of exported coffee with a delivery to IBC warehouses. This stock, which exporters would be expected to finance themselves would then effectively be "frozen" for 90 days.

Traders believe the move has two main purposes:

● By taking coffee out of circulation it may reduce the amount which the IBC has to buy under local price support arrangements, in line with the general

"squeeze" on Brazilian Government spending.

● It will enable the authorities to keep a tighter grip on stocks, which have been open to manipulation in the past. Some traders believe it could also lead to an increase in the quality of Brazilian exports, especially towards the end of the season when quality categories have tended to become mixed together.

However, it will almost certainly have the additional effect of increasing the financing costs of many exporters, which have reached punitive levels, owing to high Brazilian inflation and interest rates.

"This should lead to an increase in the amount of stocks an exporter would be forced to carry," said one trader. "There's no doubt that this would mean quite a change for the exporter," said another.

Traders do not however expect the move to have a significant impact on exports themselves.

Brazil's coffee crop in 1985-1986 is estimated at between 23.5m 60-kilo bags and 33m bags, up from the 1984-1985 level of 27m bags. Recent frosts in some producing regions do not appear to have caused any significant damage.

The country's sales quota under the International Coffee Agreement, is just over 17m bags. Sales to non-members of the Agreement, traditionally about 2m bags a year, are believed to have plunged in recent months and Brazil has complied with an agreement not to sell to non-members at a discount.

This means that the trade as a whole will probably be carrying over a higher level of stocks in 1986 than before.

The IBC is also due to announce new minimum producer prices for coffee growers. The price from July 1 is understood to have been fixed at Cru 460,000 (US\$78), still well below the market level.

## Noranda cuts zinc output by 10%

By John Edwards, Commodities Editor

ANOTHER Canadian zinc producer, Noranda, yesterday announced that it was cutting production to reflect reduced demand. It said that output at its Valleyfield plant would be reduced by 10 per cent to 10 per cent of its first-half operating rate.

Noranda's decision to reduce production follows closely on the move by Cominco of Canada to cut output by 10 per cent. Yesterday Cominco said zinc ore concentrate production at its Pine Point Mines would decline by 35,000 tons during the second half of 1985, a reduction of 11 per cent to allow for reduced demand by the company's Trail smelter. It said the reduced production levels would be maintained into 1986 or until improved market conditions warranted a resumption of full production. It blamed the cut on reduced demand and low prices.

Noranda's decision to follow the cuts announced by Cominco and Australia's Zinc Corp earlier this week helped maintain the zinc price on the London Metal Exchange at \$28.50 a tonne after reaching \$28.00 at one stage. Traders said selling resistance emerged at the \$28.00 level.

Aluminium prices lost further ground yesterday with the three months quotation closing 5.5 lower at \$791.5 a tonne. Nickel also came under heavy selling pressure, discouraged by an easing in the nearby supply situation. As a result cash nickel dropped by \$11.5 to \$4,127.5 a tonne, while the three months price closed \$5.00 lower at \$4,127.5.

Copper was easier, depressed by the liquidation of the July contract on the New York (Comex) market. However, the gap between the cash and three months prices narrowed again.

## Peter Blackburn on easing of Belgian control Zaire takes on direct marketing

ZAIRE is to take over direct marketing of its copper and cobalt from July 1 in a further move to assert independence from Belgium and maximise earnings.

Gecamines Commerciale, one of three subsidiaries set up during a major restructuring of the state-owned Generale des Carrieres et des Mines (Gecamines) last November, will take over marketing from Belgium's SGM-Afrimex.

One of the most important changes was that Gecamines retained ownership of its copper and cobalt which had previously been handed over to the state-owned Societe Zairoise de Commercialisation (Sozacom).

The changes followed pressure from the World Bank and other donors concerned about sales of large tonnages without receipts. Gecamines is setting up a marketing office in Brussels for the first three months.

It will work in parallel with SGM. No changes are foreseen at the moment in Belgium's Metalurgie - Hoboken - Overpelt's annual refining contract of some 200,000 tonnes of standard grade cathodes. Gecamines said.

Kiwamba, Kia Kiziki, the head of Gecamines Commerciale, said that Zaire was out of touch with world

markets. "It isn't normal for a country exporting nearly 500,000 tonnes a year of copper not to have a single representative at the London Metal Exchange (LME)," he said.

It was important to follow market trends more closely.

WASHINGTON — The U.S. House Interior Committee unanimously approved a Bill aimed at halting a decline in the U.S. copper industry. It calls on President Reagan to negotiate a voluntary production restraint agreement with other copper producing countries, mainly Chile, Zaire, Zambia and Peru. If he fails to negotiate such an agreement, President Reagan would be required to impose a surcharge on all copper imports of 15 cents per pound.

and develop customer relations, he added. "We want to gain credibility which is difficult when our clients have never seen us." No major changes were envisaged in products or export destinations, according to Gecamines said.

Gecamines production's marketing director in Lubumbashi, Gecamines, the world's leading wirebar producer with an

annual output of more than 300,000 tonnes a year, expects to continue wirebar production for another ten years. A few years ago it seemed that the company might phase out wirebars in response to changes in world demand. Gecamines also plans to build 100,000 tonnes a year refinery at Kolwezi to produce high grade cathodes. This means that fewer standard grade cathodes and blister will be exported to Belgium for refining.

Cobalt exports rose nearly 40 per cent to 13,351 tonnes last year and were worth \$240m. Exports are expected to rise slightly to 13,500 tonnes in 1985. Zaire is the world's largest exporter with 60 per cent of the market.

Since the beginning of last January Gecamines has sold cobalt directly to MHO in Belgium for refining into salts, powders and other special products. Refining was formerly done on a toll basis which meant that Zaire had to bear any adverse price or foreign exchange movements.

In 1984 copper production totalled 463,900 tonnes (1983—465,500) of which 225,200 was wirebars, 82,600 standard grade cathodes and 156,100 tonnes of blister. The output forecast for 1985 is 460,100 tonnes.

## Zambia sees higher copper production

PARIS — Zambian refined copper production is expected to rise to 537,000 tonnes this year from 522,000 in 1984, Luke Mwanashikulu, Zambian finance minister, said.

Cobalt output should remain steady at about 4,000 tonnes. Mwanashikulu said that copper output had fallen in 1984 because of shortages in foreign exchange needed to import the goods needed for mine production. Production in 1983 was 681,000 tonnes.

Reuter

## EEC sugar subsidy moves viewed with scepticism

By Our Sao Paulo Correspondent

TRADERS at the sugar futures market reacted sceptically to the EEC's suspension of subsidised sugar exports at its weekly selling tender on Wednesday. They claimed the suspension would at best bring a temporary respite for the depressed world market.

"This is a step in the right direction," said one trader. "But it's probably not a change of heart."

Most observers said the decision by the EEC sugar management committee to refuse all export bids did not alter the fact that the Community has still a large sugar surplus which it needs to dispose of on the world market.

"Once the price rises, they'll be back dumping the same

amounts," said one broker. Meanwhile, more details emerged to explain the EEC move. It is understood that the Commission has decided it will not export sugar when the world market price exceeds 85 per cent of the internal Community price.

Our commodities staff writes that raw sugar futures ended the late afternoon call near session highs boosted by firm U.S. market prices, pressure on the dollar and the European Community's refusal to allow any export awards at Wednesday's tender because of low world prices for sugar.

Futures posted gains from the previous close of \$1.60 to \$2.20 a tonne in a volume of 1,366 lots.

## Futures report reveals world volume leaders

By Our Washington Staff

RAPE SEED, silver and dried coconut were among volume leaders on non-U.S. commodity trading on the Chicago Board of Trade, according to a new monthly report being compiled by the U.S. Futures Industry Association (FIA).

The report, which plans to include the London exchanges, lists silver as the highest volume contract last month on the Tokyo commodity exchange, where, more than 200,000 silver futures changed hands, along with almost 54,000 gold contracts, 44,000 platinum and 61,000 rubber.

Silver, however, made a poor showing on the Winnipeg commodity exchange.

## Donors postpone talks on investment for Gecamines

By Our Zaire Correspondent

AN AID donors' meeting to discuss the funding of Zaire state copper and cobalt mining by Gecamines was postponed to September, according to the Zaire Ministry of Mines.

The delay, one of several over the past 18 months, has been caused by doubts among aid donors over the recent creation of a state trading agency, Sonatrak, to co-ordinate the purchase of equipment and sup-

plies for Gecamines and four other major state enterprises. Sonatrak, which is managed by Mr Robert Cren, former Belgian head of Gecamines, is intended to standardise purchases and reduce costs. However aid donors say it runs counter to present policies of economic liberalisation and that centralised purchasing is likely to cause delays and add to costs.

Mulenda Mbo, the head of Gecamines production, expressed "disappointment" at the lack of support shown by aid donors.

## LONDON MARKETS

## BASE METALS

LME prices supplied by Amalgamated Metal Trading

## ALUMINIUM

Unofficial + or - High/Low  
Close (am) 1985  
Cash 768.5-5.5 968.0  
3 months 791.5-2.5 794.5/285

## COPPER

Higher grade Unofficial + or - High/Low  
Close (am) 1985  
Cash 1085.5-10.75 1090.0/88.5  
3 months 1099.5-1.5 1100.5/100.1

## LEAD

Unofficial + or - High/Low  
Close (am) 1985  
Cash 1070.1-13 1086.1/87.8  
3 months 1085.1-10.5 1100.5/100.1

## NICKEL

Unofficial + or - High/Low  
Close (am) 1985  
Cash 1070.1-13 1086.1/87.8  
3 months 1085.1-10.5 1100.5/100.1

## TIN

Unofficial + or - High/Low  
Close (am) 1985  
Cash 9670.0-100 9770.0/970.0  
3 months 9670.0-100 9770.0/970.0

## ZINC

Unofficial + or - High/Low  
Close (am) 1985  
Cash 9670.0-100 9770.0/970.0  
3 months 9670.0-100 9770.0/970.0

## MAIN PRICE CHANGES

In tonnes unless otherwise stated.

June 27 + or - Month

1985

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## INDICES

## FINANCIAL TIMES

June 26, 27, 28, 29, 30, 1985

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## OIL

Demand for prompt and forward

Brent pushed up prices, by 1 pm EST

Nymex was trading 18 cents up for

August delivery. The petroleum

products market gas oil prices remained

stable in quiet and directionless

conditions. Heavy fuel prices firmed

prompt demand for straight-run

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...and the fact that the *Journal* is a journal of the American Psychological Association, the largest and most influential organization in the field of psychology, adds to the journal's prestige and makes it a must-read for all psychologists.



#### INDUSTRIALS—Continued

[illegible]**LEISURE—Continued**[illegible]**PROPERTY—Continued**[illegible]**INVESTMENT TRUSTS—Cont.**

| High | Low  | Stock                | Price | % Chg | Vol | High | Low | Stock             | Price | % Chg | Vol |
|------|------|----------------------|-------|-------|-----|------|-----|-------------------|-------|-------|-----|
| 185  | 184  | Duke Energy Inc. 50p | 599   | 0.00  | 10  | 185  | 184 | Johnson & Johnson | 100   | 0.00  | 10  |
| 184  | 183  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 184  | 183 | Johnson & Johnson | 100   | 0.00  | 10  |
| 183  | 182  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 183  | 182 | Johnson & Johnson | 100   | 0.00  | 10  |
| 182  | 181  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 182  | 181 | Johnson & Johnson | 100   | 0.00  | 10  |
| 181  | 180  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 181  | 180 | Johnson & Johnson | 100   | 0.00  | 10  |
| 180  | 179  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 180  | 179 | Johnson & Johnson | 100   | 0.00  | 10  |
| 179  | 178  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 179  | 178 | Johnson & Johnson | 100   | 0.00  | 10  |
| 178  | 177  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 178  | 177 | Johnson & Johnson | 100   | 0.00  | 10  |
| 177  | 176  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 177  | 176 | Johnson & Johnson | 100   | 0.00  | 10  |
| 176  | 175  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 176  | 175 | Johnson & Johnson | 100   | 0.00  | 10  |
| 175  | 174  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 175  | 174 | Johnson & Johnson | 100   | 0.00  | 10  |
| 174  | 173  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 174  | 173 | Johnson & Johnson | 100   | 0.00  | 10  |
| 173  | 172  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 173  | 172 | Johnson & Johnson | 100   | 0.00  | 10  |
| 172  | 171  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 172  | 171 | Johnson & Johnson | 100   | 0.00  | 10  |
| 171  | 170  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 171  | 170 | Johnson & Johnson | 100   | 0.00  | 10  |
| 170  | 169  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 170  | 169 | Johnson & Johnson | 100   | 0.00  | 10  |
| 169  | 168  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 169  | 168 | Johnson & Johnson | 100   | 0.00  | 10  |
| 168  | 167  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 168  | 167 | Johnson & Johnson | 100   | 0.00  | 10  |
| 167  | 166  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 167  | 166 | Johnson & Johnson | 100   | 0.00  | 10  |
| 166  | 165  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 166  | 165 | Johnson & Johnson | 100   | 0.00  | 10  |
| 165  | 164  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 165  | 164 | Johnson & Johnson | 100   | 0.00  | 10  |
| 164  | 163  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 164  | 163 | Johnson & Johnson | 100   | 0.00  | 10  |
| 163  | 162  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 163  | 162 | Johnson & Johnson | 100   | 0.00  | 10  |
| 162  | 161  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 162  | 161 | Johnson & Johnson | 100   | 0.00  | 10  |
| 161  | 160  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 161  | 160 | Johnson & Johnson | 100   | 0.00  | 10  |
| 160  | 159  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 160  | 159 | Johnson & Johnson | 100   | 0.00  | 10  |
| 159  | 158  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 159  | 158 | Johnson & Johnson | 100   | 0.00  | 10  |
| 158  | 157  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 158  | 157 | Johnson & Johnson | 100   | 0.00  | 10  |
| 157  | 156  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 157  | 156 | Johnson & Johnson | 100   | 0.00  | 10  |
| 156  | 155  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 156  | 155 | Johnson & Johnson | 100   | 0.00  | 10  |
| 155  | 154  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 155  | 154 | Johnson & Johnson | 100   | 0.00  | 10  |
| 154  | 153  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 154  | 153 | Johnson & Johnson | 100   | 0.00  | 10  |
| 153  | 152  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 153  | 152 | Johnson & Johnson | 100   | 0.00  | 10  |
| 152  | 151  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 152  | 151 | Johnson & Johnson | 100   | 0.00  | 10  |
| 151  | 150  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 151  | 150 | Johnson & Johnson | 100   | 0.00  | 10  |
| 150  | 149  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 150  | 149 | Johnson & Johnson | 100   | 0.00  | 10  |
| 149  | 148  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 149  | 148 | Johnson & Johnson | 100   | 0.00  | 10  |
| 148  | 147  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 148  | 147 | Johnson & Johnson | 100   | 0.00  | 10  |
| 147  | 146  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 147  | 146 | Johnson & Johnson | 100   | 0.00  | 10  |
| 146  | 145  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 146  | 145 | Johnson & Johnson | 100   | 0.00  | 10  |
| 145  | 144  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 145  | 144 | Johnson & Johnson | 100   | 0.00  | 10  |
| 144  | 143  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 144  | 143 | Johnson & Johnson | 100   | 0.00  | 10  |
| 143  | 142  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 143  | 142 | Johnson & Johnson | 100   | 0.00  | 10  |
| 142  | 141  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 142  | 141 | Johnson & Johnson | 100   | 0.00  | 10  |
| 141  | 140  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 141  | 140 | Johnson & Johnson | 100   | 0.00  | 10  |
| 140  | 139  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 140  | 139 | Johnson & Johnson | 100   | 0.00  | 10  |
| 139  | 138  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 139  | 138 | Johnson & Johnson | 100   | 0.00  | 10  |
| 138  | 137  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 138  | 137 | Johnson & Johnson | 100   | 0.00  | 10  |
| 137  | 136  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 137  | 136 | Johnson & Johnson | 100   | 0.00  | 10  |
| 136  | 135  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 136  | 135 | Johnson & Johnson | 100   | 0.00  | 10  |
| 135  | 134  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 135  | 134 | Johnson & Johnson | 100   | 0.00  | 10  |
| 134  | 133  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 134  | 133 | Johnson & Johnson | 100   | 0.00  | 10  |
| 133  | 132  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 133  | 132 | Johnson & Johnson | 100   | 0.00  | 10  |
| 132  | 131  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 132  | 131 | Johnson & Johnson | 100   | 0.00  | 10  |
| 131  | 130  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 131  | 130 | Johnson & Johnson | 100   | 0.00  | 10  |
| 130  | 129  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 130  | 129 | Johnson & Johnson | 100   | 0.00  | 10  |
| 129  | 128  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 129  | 128 | Johnson & Johnson | 100   | 0.00  | 10  |
| 128  | 127  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 128  | 127 | Johnson & Johnson | 100   | 0.00  | 10  |
| 127  | 126  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 127  | 126 | Johnson & Johnson | 100   | 0.00  | 10  |
| 126  | 125  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 126  | 125 | Johnson & Johnson | 100   | 0.00  | 10  |
| 125  | 124  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 125  | 124 | Johnson & Johnson | 100   | 0.00  | 10  |
| 124  | 123  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 124  | 123 | Johnson & Johnson | 100   | 0.00  | 10  |
| 123  | 122  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 123  | 122 | Johnson & Johnson | 100   | 0.00  | 10  |
| 122  | 121  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 122  | 121 | Johnson & Johnson | 100   | 0.00  | 10  |
| 121  | 120  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 121  | 120 | Johnson & Johnson | 100   | 0.00  | 10  |
| 120  | 119  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 120  | 119 | Johnson & Johnson | 100   | 0.00  | 10  |
| 119  | 118  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 119  | 118 | Johnson & Johnson | 100   | 0.00  | 10  |
| 118  | 117  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 118  | 117 | Johnson & Johnson | 100   | 0.00  | 10  |
| 117  | 116  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 117  | 116 | Johnson & Johnson | 100   | 0.00  | 10  |
| 116  | 115  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 116  | 115 | Johnson & Johnson | 100   | 0.00  | 10  |
| 115  | 114  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 115  | 114 | Johnson & Johnson | 100   | 0.00  | 10  |
| 114  | 113  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 114  | 113 | Johnson & Johnson | 100   | 0.00  | 10  |
| 113  | 112  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 113  | 112 | Johnson & Johnson | 100   | 0.00  | 10  |
| 112  | 111  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 112  | 111 | Johnson & Johnson | 100   | 0.00  | 10  |
| 111  | 110  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 111  | 110 | Johnson & Johnson | 100   | 0.00  | 10  |
| 110  | 109  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 110  | 109 | Johnson & Johnson | 100   | 0.00  | 10  |
| 109  | 108  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 109  | 108 | Johnson & Johnson | 100   | 0.00  | 10  |
| 108  | 107  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 108  | 107 | Johnson & Johnson | 100   | 0.00  | 10  |
| 107  | 106  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 107  | 106 | Johnson & Johnson | 100   | 0.00  | 10  |
| 106  | 105  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 106  | 105 | Johnson & Johnson | 100   | 0.00  | 10  |
| 105  | 104  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 105  | 104 | Johnson & Johnson | 100   | 0.00  | 10  |
| 104  | 103  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 104  | 103 | Johnson & Johnson | 100   | 0.00  | 10  |
| 103  | 102  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 103  | 102 | Johnson & Johnson | 100   | 0.00  | 10  |
| 102  | 101  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 102  | 101 | Johnson & Johnson | 100   | 0.00  | 10  |
| 101  | 100  | Du Pont 1/8          | 63.11 | 0.00  | 10  | 101  | 100 | Johnson & Johnson | 100   | 0.00  | 10  |
| 100  | 99   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 100  | 99  | Johnson & Johnson | 100   | 0.00  | 10  |
| 99   | 98   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 99   | 98  | Johnson & Johnson | 100   | 0.00  | 10  |
| 98   | 97   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 98   | 97  | Johnson & Johnson | 100   | 0.00  | 10  |
| 97   | 96   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 97   | 96  | Johnson & Johnson | 100   | 0.00  | 10  |
| 96   | 95   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 96   | 95  | Johnson & Johnson | 100   | 0.00  | 10  |
| 95   | 94   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 95   | 94  | Johnson & Johnson | 100   | 0.00  | 10  |
| 94   | 93   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 94   | 93  | Johnson & Johnson | 100   | 0.00  | 10  |
| 93   | 92   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 93   | 92  | Johnson & Johnson | 100   | 0.00  | 10  |
| 92   | 91   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 92   | 91  | Johnson & Johnson | 100   | 0.00  | 10  |
| 91   | 90   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 91   | 90  | Johnson & Johnson | 100   | 0.00  | 10  |
| 90   | 89   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 90   | 89  | Johnson & Johnson | 100   | 0.00  | 10  |
| 89   | 88   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 89   | 88  | Johnson & Johnson | 100   | 0.00  | 10  |
| 88   | 87   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 88   | 87  | Johnson & Johnson | 100   | 0.00  | 10  |
| 87   | 86   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 87   | 86  | Johnson & Johnson | 100   | 0.00  | 10  |
| 86   | 85   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 86   | 85  | Johnson & Johnson | 100   | 0.00  | 10  |
| 85   | 84   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 85   | 84  | Johnson & Johnson | 100   | 0.00  | 10  |
| 84   | 83   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 84   | 83  | Johnson & Johnson | 100   | 0.00  | 10  |
| 83   | 82   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 83   | 82  | Johnson & Johnson | 100   | 0.00  | 10  |
| 82   | 81   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 82   | 81  | Johnson & Johnson | 100   | 0.00  | 10  |
| 81   | 80   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 81   | 80  | Johnson & Johnson | 100   | 0.00  | 10  |
| 80   | 79   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 80   | 79  | Johnson & Johnson | 100   | 0.00  | 10  |
| 79   | 78   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 79   | 78  | Johnson & Johnson | 100   | 0.00  | 10  |
| 78   | 77   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 78   | 77  | Johnson & Johnson | 100   | 0.00  | 10  |
| 77   | 76   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 77   | 76  | Johnson & Johnson | 100   | 0.00  | 10  |
| 76   | 75   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 76   | 75  | Johnson & Johnson | 100   | 0.00  | 10  |
| 75   | 74   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 75   | 74  | Johnson & Johnson | 100   | 0.00  | 10  |
| 74   | 73   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 74   | 73  | Johnson & Johnson | 100   | 0.00  | 10  |
| 73   | 72   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 73   | 72  | Johnson & Johnson | 100   | 0.00  | 10  |
| 72   | 71   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 72   | 71  | Johnson & Johnson | 100   | 0.00  | 10  |
| 71   | 70   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 71   | 70  | Johnson & Johnson | 100   | 0.00  | 10  |
| 70   | 69   | Du Pont 1/8          | 63.11 | 0.00  | 10  | 70   | 69  | Johnson & Johnson | 100   | 0.00  | 10  |
| 69   | 68</ |                      |       |       |     |      |     |                   |       |       |     |

**FINANCE, LAND—Cont.**[illegible]

**MINES—Continued**

[illegible]



## LONDON STOCK EXCHANGE

## MARKET REPORT

## Weak tone continues but late rally takes equity leaders away from year's lowest

Account Dealing Dates  
 Option  
 \*First Declared Last Account  
 Dealings from Dealings Day  
 June 17 June 27 June 27 July 2  
 July 17 July 27 July 27 July 27  
 July 17 July 27 July 27 Aug 2  
 \*New-time\* dealings may take  
 place from 9.30 am two business days  
 earlier.

Declines on the London equity market showed few signs of abating for much of yesterday. By mid-afternoon, share prices were down to their lowest levels since December 13 with traders increasingly pessimistic and forecasting a continuation of the free-fall. At 2 pm this mood had lowered the FT Ordinary share index over 97 points in the past three weeks. The reasons for the depression remained unaltered and included cash shortage as a result of over-funding. Attention yesterday focused on Hanson Trust and again on Thoro EMI. The situation regarding Hanson new nil-paid shares aroused concern that much of the £150m issue could be left with the underwriters. An instalment of £1 on each new share is due on Tuesday and at one stage the price fell to 11p premium before rallying to 11p.

Wild talk that Thoro EMI had run into financial problems had approached the Bank of England savaged the shares which dropped to 34p prior to the group's strong disclaimer of any such situation. Thoro EMI, thought to be a bid target for Hanson just a short while ago, subsequently steadied but at 38p, the price has dropped 59 over the past two sessions.

Other blue chip industrials were also down by double-figure amounts just before the official close. After-hours, however, the scene changed and share prices altered. A technical recovery held at last and touched off renewed demand which saw values respond sharply. Encouraged by early firmness on Wall Street, the market rallied to the extent that a fall of 13.5, at 2 pm, in the FT Ordinary index was reduced to only 2.6 at 9.30.

Gilt-edged investors were not dismayed by the Chancellor's lack of encouragement on interest rates. Some decided to commit funds on the back of the rising sterling exchange rate and longer-dated gained 1 1/2 places. News of the May surplus on UK trade account made little impact on sentiment in either Gilt-edged or equities.

**Hogg Robinson rise**  
 A broker's recommendation in the wake of the preliminary results and U.S. earnings report attracted buyers to Hogg Robinson, which advanced to 239p before closing 8 better on balance at 237p. Other Lloyds Brokers (Lloyds) rose to 103p, C. E. Heath advanced 7 to 603p and PWS International 5 to 305p. Windsor Securities softened a couple of pence more to 51p. Lander Investments, private insurance company, won boardroom control of W.S. on Wednesday after a protracted battle. Composites often closed above

the lowest levels of the day. Royals cheapened 5 more to 640p, after 630p, on further consideration of the 294m acquisition of Lloyd's Life Assurance. Life issues staged a late technical recovery but still sustained double-figure falls in places. Prudential declined 20 to 637p, after 630p, while Legal and General cheapened 10 to 687p, after 680p.

First National Finance Corporation lost 6 to 96p following profit-taking in the wake of the 22m takeover of the company's subsidiary, Newcomers to the market continued to have a rough ride. The latest debutant First Security, designers and manufacturers of automotive safety and fire detection systems, was no exception. The shares began life at 120p and touched 115p before closing at the former price, a discount of 40 on the offer-for-sale level of 160p. Elsewhere, Brest Walker, which were offer-for-sale recently at 130p tumbled 15 to 99p.

Another active business developed in recent speculative favourite Allied-Lyons. Down to 215p earlier reflecting occasional profit-taking, the shares later rallied to set a new high of 40 on the offer-for-sale level of 160p. Elsewhere, Brest Walker, which were offer-for-sale recently at 130p tumbled 15 to 99p.

Developed in recent speculative favourite Allied-Lyons. Down to 215p earlier reflecting occasional profit-taking, the shares later rallied to set a new high of 40 on the offer-for-sale level of 160p. Elsewhere, Brest Walker, which were offer-for-sale recently at 130p tumbled 15 to 99p.

A weak chemicals sector included one of the day's features in Allied Colloids which plummeted to a 1985 low of 152p reflecting a sharp decline in preliminary results, prior to closing 58 down at 137p. Rentokil dropped 10 to 143p and Wards Stores 8 to 174p. ICI gave up a 20c point in initial dealing but gathered strength after hours to close 6 better at 739p. Initially depressed by the Chancellor's refusal to consider an immediate reduction in interest rates, sentiment in leading Stores later improved. Earlier double-figure losses were almost eradicated and the shares fell to 38p at one stage, reverted to the overnight level of 36p, while Burton settled 4p cheaper at 444p, after 436p.

Development of the new chairman before reacting to a higher on balance at 13p, the

## FINANCIAL TIMES STOCK INDICES

|                              | June 27 | June 26 | June 25 | June 24 | June 23 | June 22 | June 21 | June 20 | June 19 |
|------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Government Bonds.....        | 91.86   | 91.81   | 91.77   | 91.99   | 91.92   | 91.94   | 91.94   | 91.94   | 91.94   |
| Interest .....               | 86.42   | 86.87   | 86.38   | 85.58   | 86.70   | 86.48   | 86.48   | 86.48   | 86.48   |
| Ordinary .....               | 93.64   | 93.60   | 93.51   | 93.3    | 93.51   | 93.74   | 93.8    | 93.8    | 93.8    |
| Old Mines .....              | 438.2   | 439.07  | 448.5   | 440.9   | 440.3   | 438.5   | 438.5   | 438.5   | 438.5   |
| U. S. Div. Yield .....       | 4.95    | 4.90    | 4.88    | 4.80    | 4.81    | 4.81    | 4.81    | 4.81    | 4.81    |
| Surpluses, Yld & Full .....  | 12.41   | 13.86   | 13.17   | 13.03   | 10.06   | 11.81   | 11.81   | 11.81   | 11.81   |
| U. S. Ratio (net) (%) .....  | 2.84    | 2.88    | 3.00    | 3.01    | 3.10    | 3.10    | 3.10    | 3.10    | 3.10    |
| Foreign Margins (Est.) ..... | 1,250   | 913.8   | 710.98  | 755.99  | 32.84   | 32,169  | 15.5    | 15.5    | 15.5    |
| Equity turnover Cmo .....    | —       | 374.88  | 318.15  | 242.39  | 330.34  | 485.84  | 487.1   | 487.1   | 487.1   |
| Equity Margins .....         | —       | 17,707  | 30,898  | 30,401  | 34,999  | 97,689  | 154.7   | 154.7   | 154.7   |
| Equity bargains (mil.) ..... | —       | 208.8   | 202.9   | 140.8   | 177.8   | 250.1   | 11      | 11      | 11      |

10 am 936.1      11 am 930.2      Noon 925.8      1 pm 923.3

2 pm 920.4      3 pm 920.0

Base 100 Govt. Bonds 172/32      Tied in 1328.      Ordinary 171/32

Old Mines 124/35.      3E Activity 124/35.

Latest index: 01-246 9028.

\* NN = 8.52.







## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

**Continued on Page 47**



## AMEX COMPOSITE PRICES

Prices at 3pm, June 27

| 12 Month |       | Stock | Div. | Yld. | P/E | S/S   |       | Ch/g  |             | 12 Month |        | Yld. | P/E | S/S | Close  |        |
|----------|-------|-------|------|------|-----|-------|-------|-------|-------------|----------|--------|------|-----|-----|--------|--------|
| High     | Low   |       |      |      |     | High  | Low   | Quota | Prev. Close | High     | Low    |      |     |     |        | Quota  |
| 12/2     | 8 1/2 | SavE  | 1.25 | 11.  | 4   | 1 1/2 | 1 1/2 | 1 1/2 | 80 1/4      | 50 1/4   | Trav   | 4.16 | 7.3 | 44  | 57 1/2 | 57 1/2 |
| 9 1/4    | 4 1/4 | Swm   |      |      | 41  | 7 1/4 | 7 1/4 | 7 1/4 | 27 1/2      | 19 1/4   | TrnCon | 3.52 | 13. | 95  | 26 1/2 | 26 1/2 |
|          |       |       |      |      |     |       |       |       |             |          |        | 9.2  | 8.  | 74  | 26 1/2 | 26 1/2 |

[illegible][illegible]**Nasdaq national market, 2.30pm prices**

| Stock | Sales | High | Low | Last                | Clos. |
|-------|-------|------|-----|---------------------|-------|
| Stock | Sales | High | Low | Last <td>Clos.</td> | Clos. |

[illegible]

|      |     |    |     |     |   |
|------|-----|----|-----|-----|---|
| 1998 | 330 | 31 | 302 | 302 | + |
| 1999 | 85  | 17 | 17  | 114 | - |
| 2000 | 79  | 28 | 25  | 263 | + |

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# FINANCIAL TIMES

## WORLD STOCK MARKETS

### WALL STREET

## Concerted assault on peaks

THE SUCCESSFUL progress of the U.S. Treasury's \$17bn refunding programme gave a boost to investors' confidence on Wall Street yesterday, helping the stock market to reach a record level, writes Terry Byland in New York.

Bond prices rose by nearly one full point ahead of the auction of \$4.5bn in 20-year Treasury bonds, while T-bond rates opened sharply lower after renewed nervousness in the banking sector.

The stock market broke through its previous peak once again within the first half hour of trading as stocks responded to optimism for a solution to the latest impasse in the Senate over budget legislation.

At 3pm the Dow Jones Industrial average was up 8.96 at 1,327.77.

This compares with a previous closing peak of 1,327.28.

In the banking sector, nervousness over the losses disclosed in the bankruptcy filings of Hunt International Resources unsettled some stocks. First Chicago, the largest creditor with \$81.8m in loans, eased 3/4 to \$22. Bankers Trust, with \$23.8m in Hunt loans, rallied from Wednesday's fall, rising 1/4 to \$68.

Other banking stocks firmed. J. P. Morgan gained 3/4 to \$50 1/2 and Chase Manhattan 3/4 to \$59 1/2. Manufacturers Hanover at \$39 was 3/4 better.

Bid speculation in airline stocks drove the Dow transportation average upwards in early trading. The developments at TWA have focused market attention on the prospects for industry takeovers. With United apparently safe now that it has drained off its surplus pension funds, speculators have turned elsewhere.

Pan American, the most active stock in the market, touched its 52-week peak of \$7 before settling at \$6 1/2, a net 5/4 up with more than 2m shares traded by mid-session.

Among the domestic carriers, American Airlines jumped 1 1/4 to \$47 1/2 but Delta dipped 3/4 to \$49, after the board again said it knew no reason for the stock's activity.

Eastern added 3/4 to \$8 1/2, also on speculative buying. But United at \$52 1/2 was off 3/4.

AT&T rallied from its weakness since IBM announced its foray into the telephone market. At \$23 1/4, AT&T was 3/4 higher in average trading.

IBM gained 3/4 to \$123 1/4 as investors continued to welcome the group's investment in MCI Communications, which gained a further 3/4 to \$11. GTE, also a major telephone system operator, dipped 3/4 to \$40 1/4.

Oil industry stocks were mixed, with Standard Oil of Ohio, controlled by British Petroleum, down 3/4 to \$47 1/2 after disclosing a \$50m charge against earnings. Enserch, the energy group, edged up 3/4 to \$25 1/4 despite taking a \$22m charge.

Exxon added 3/4 to \$53 1/2 in quiet trading but Atlantic Richfield, still troubled by the unexpected retirement of a top corporate officer, eased 3/4 to \$59 1/2.

Lower car sales for the early June period continued to hold back motor stocks. General Motors was unchanged

at \$7 1/4 although both Ford at \$44 1/2 and Chrysler at \$35 1/2 edged forward.

Increased turnover in the stock market continued to boost stocks in the brokerage houses. At \$31 1/4, Merrill Lynch added a further 3/4, while Phibro Salomon gained 5/4 to \$41 1/2 in brisk turnover. Quick & Reilly, the discount broker which announced higher earnings for the quarter, was 3/4 better at \$23 1/4.

Speculative activity in the medical supply group intensified, with American Hospital Supply (AHS) 1 1/4 higher at \$39 1/4 as traders awaited news from the board meeting of Baxter Travenol, which is expected to press ahead with its offer for AHS. Hospital Corporation of America edged up by 3/4 to \$49. Reflecting Wall Street's conviction that its agreed merger with AHS will be brushed aside by the Baxter offer.

Despite the softening in the dollar, drug stocks were easier. Abbott Laboratories shed 1 1/4 to \$36 1/4 in a state of profit-taking. Merck resumed its upward rack, adding 3/4 to \$113.

Chemical issues were in good form as the signs of economic growth raised expectations of increased demand for industrial chemicals. Du Pont added 3/4 to \$57 1/4, Monsanto 3/4 to \$48 1/4 and Dow Chemical 3/4 to \$35 1/4.

Treasury bill yields remained down despite a brief recovery at mid-session. However, commercial money market rates were often higher.

The bond market responded vigorously to the successful outcome of the first two Treasury auctions to be held this week, and 20-year issues were three quarters of a point up ahead of the sale of similar federal bonds. Some Japanese buying was reported, and trading houses were able to reduce the weight of stock acquired last week.

### LONDON

## Late upturn from six month low

THE DECLINE in London equity markets continued yesterday with cash shortages caused by over-funding further depressing activity.

By mid-afternoon share prices were at their lowest level since December 13. However, a late recovery edged prices higher and left the FT Ordinary index to close down 2 1/2 at 933.9.

Gilt was firm, backed by continued gains by sterling, and gains by longer-dated issues were up to 1/4 in places.

Chief price changes, Page 45; Details, Page 44; Share information service, Pages 42-43.

### HONG KONG

MARKET speculation that Swire Pacific planned to sell a recently-acquired development site primed an advance in Hong Kong that took the Hang Seng index up 16.51 to 1,581.70.

The company had no immediate comment on the rumours but its shares advanced 50 cents to HK\$24.

Hongkong Land put on 15 cents to HK\$5.80 in response to Wednesday's announcement that it was to sell its trading operation in Singapore to Cold Storage.

### SINGAPORE

SOME short covering, after the previous day's fall, left Singapore to close mixed in lethargic trading on the last day of the monthly account.

The Straits Times industrial index edged just 0.93 ahead to 784.93.

Among actively traded stocks, Sigma gained 5 cents to S\$2.25 and Pan Electric 2 cents to S\$2.32. Sime Darby was 1 cent ahead at S\$1.97.

Cold Storage rose 3 cents to S\$2.55 after its purchase of Hongkong Land's trading operations in Singapore.

### SOUTH AFRICA

THE continued absence of incentives to buy left Johannesburg gold stocks to close at their lows for the day.

Kloof shed R1 to R79 while among the cheaper priced producers, Loraine was 25 cents lower at R9.40. Other sectors were little changed. Among platinum stocks, Impala eased 5 cents to R18.80, while Rustenburg was 5 cents higher at R15.90.

### AUSTRALIA

A DEPRESSED resources sector, in the wake of lower copper prices, was particularly offset by buoyancy among industrial stocks in Sydney, leaving the All Ordinaries index 1.2 lower on balance at 861.7.

Allens, the subject of an improved A\$4.65-a-share offer traded 2.5m shares, gaining 10 cents to A\$70.

Myer Emporium was also actively traded, adding 12 cents to A\$2.40. Strong foreign demand was reported, on expectations of a bid for Myer.

### CANADA

A LOWER trend emerged in Toronto in moderately active trading. Canadian Pacific traded 3 1/2 lower at C\$19 1/2 in continued reaction to the sale by its single largest shareholder Power Corp. of its 6 per cent stake.

Canamax Resources was C\$ 1/2 easier at C\$6 after announcing that the latest drill holes at its Ontario gold project had produced poorer results than earlier tests.

Montreal was also marginally lower.

### EUROPE

## Frankfurt regains composure

COMPOSURE returned to trading in Frankfurt yesterday as domestic and foreign investors again asserted control and averted a further erosion of the steep, two-month advance.

The Commerzbank index recovered 11.50 to 1,411.2. Yesterday, the bank restated Wednesday's loss as 33.50, not 60.30 as previously announced.

Banking and motor stocks remained the centre of activity and were of particular interest to foreign investors.

Dresdner again showed the largest price fluctuation, adding DM 15 to DM 244, while Commerzbank firmed DM 6.50 to DM 202.50 and Deutsche Bank 50 pf to DM 587.50.

All automotive stocks returned to favour after Wednesday's heavy selling. Volkswagen firmed throughout the day to finish at a high of DM 315 while BMW rose by the same amount to DM 434, Daimler-Benz DM 4 to DM 833 and Porsche DM 20 to 1,478.

Allianz also rebounded with a DM 42 increase to DM 1,517, but was down from its high for the day of DM 1,530.

Holtzmann which fell heavily on Wednesday following news of expected lower earnings this year returned strongly with a DM 57 jump to DM 482.

BASF's statement that it expected improved results during the current year pushed the shares up DM 2.10 to DM 226.70 and AEG also benefited from favourable corporate news with a DM 6 rise to DM 143.

Engineering stocks were also well supported. Linde closed DM 10 higher at DM 520, Mannesmann DM 3 to DM 188 and GHH DM 3.30 at DM 168.

Bonds were generally firmer, with some small isolated declines. The Bundesbank sold DM 38m worth of domestic bonds after purchases worth DM 41.3m on Wednesday.

Zurich was active with continued heavy buying in the banking sector aiding the achievement of the second consecutive record by the Swiss Bank industrial index.

As most leading issues forged ahead, the index added 1.60 to 443.50. Among the banks Bank Leu firmed SwFr 65 to SwFr 3,940, Swiss Bank SwFr 12 to

SwFr 448, Swiss Volksbank SwFr 12 to SwFr 1,700 and Credit Suisse SwFr 10 to SwFr 2,870.

Foreign buying interest was behind much of the support for banking stocks which also flowed over into the insurance sector, although prices movements among these were smaller.

Swissair led a generally stronger transport section with a SwFr 50 improvement to SwFr 1,340.

Trading on the bond market was thin with many traders out of the market. After a weak opening, Amsterdam prices recovered ground in response to encouraging domestic and international news.

Amro's plans to take over European Banking Company injected life into the entire sector. Amro firmed 70 cents to Fl 78.10 while ABN was Fl 2.50 higher at Fl 257.50.

Among other major groups, Unilever turned its Fl 1.10 opening loss into a rise of 50 cents to Fl 33 1/2 and Akzo and Royal Dutch/Shell each firmed 60 cents to Fl 107.50 and Fl 197.40 respectively.

Insurers moved against the trend and were marginally lower in light business. Aegon was down 70 cents to Fl 84.30 and Aenev gave up 50 cents to Fl 246.50.

There were widespread falls in Paris as buying interest abated despite continued general optimism about business prospects, reinforced by the latest monthly survey from the National Statistics Institute.

By the close of trading advances outnumbered declines by 131 to 39, while the CAC index was down 2.7 to 225.70.

The construction sector felt the weight of selling, with Bouygues falling Ffr 9 to Ffr 805 and Lafarge Coppee Ffr 20 to Ffr 534. Michelin continued to decline and closed Ffr 24 lower at Ffr 1,188 while Peugeot eased Ffr 12 to Ffr 403.

Trading in Brussels was quiet with price movements confined to a narrow range.

Petrofina fell for the second consecutive day amid continuing concern about the world oil price. The shares eased Bfr 30 to Bfr 5,640. Utilities were lower with Ebes down Bfr 35 to Bfr 2,935 and Intercom off Bfr 5 to Bfr 2,120.

Stockholm recovered some of the ground lost during recent weeks on increased turnover. The Veckans Affarar index moved to its highest level for two weeks with a 6.3 rise to 457.8.

Electrolux led the advance, firming Skr 9 to Skr 255 and Pharmacia was also heavily traded as it added Skr 3 to Skr 174.

Milan continued to edge lower as profit-takers remained active. Madrid firmed marginally after several weaker sessions.

### TOKYO

## Decline as profits are taken

MEDIUM and low-priced stocks encountered profit-taking in Tokyo yesterday, pushing prices down across a broad front, writes Shigeo Nishizaki of Jiji Press.

There was little interest in large-capital issues and many blue chip and high-technology stocks lost ground.

The Nikkei-Dow market average, which hit a record on Wednesday, plummeted 137 at one point but closed a net 68.89 lower, the first decline in five sessions.

Volume dropped from 646.59m shares to 358.01m. Losers outpaced gainers 422 to 320, with 137 issues unchanged.

Only a handful of stocks were in demand. Ube Industries added Y25 to Y280 and topped the active list with 30.00m shares changing hands. The company reported development of a rheumatism treatment provided the impetus.

Meiji Milk Products, added Y4 to Y50 on reports of its new mass-production technology for a hepatitis B vaccine.

Investors bought Konishiroku Photo Industry, pushing it up Y12 to Y70, ahead of its launch of a colour copier later this year. Mitsubishi Belting, which developed a belt for continuously variable automobile transmissions, closed Y17 higher at Y863.

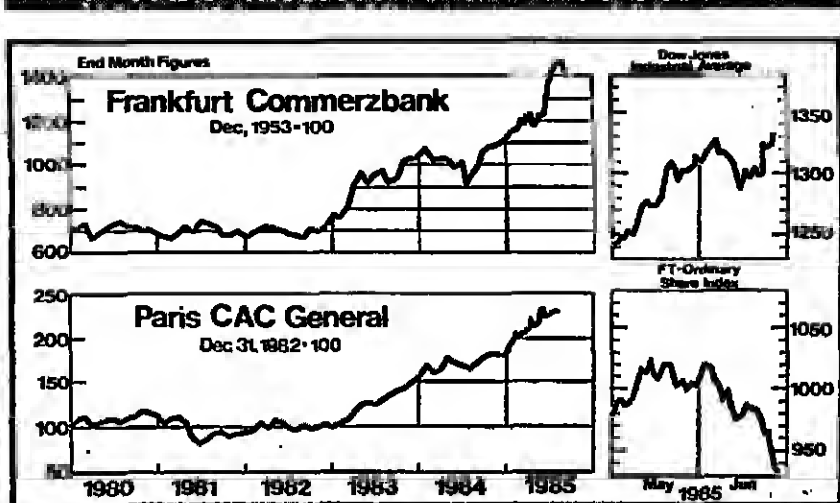
But Keisei Electric Railway eased Y14 to Y482 on the second heaviest trading of 9.17m shares. Taiyo Fishery and Teijin also dropped Y2 to Y312 and Y8 to Y455, respectively, while Snow Brand closed Y15 lower at Y555.

Some broking houses and non-life insurance, which had gained sharply on Wednesday, declined. Nomura Securities lost Y30 to Y1,290, Taisho Marine and Fire Y5 to Y588, and Tokio Marine and Fire Y5 to Y935.

As for blue chips, Hitachi and Sony declined Y8 to Y733 and Y10 to Y4,080, respectively. Nippon Kogaku suffered a Y40 drop to Y1,130.

Bond prices gained sharply in active trading as expectations of a drop in US interest rates grew. The yield on the 7 1/2 per cent government bonds, maturing in December 1993, dropped from 6.450 per cent to 6.425 per cent, matching the all-time low registered on June 22.

### KEY MARKET MONITORS



| STOCK MARKET INDICES |          |          |          |
|----------------------|----------|----------|----------|
|                      | June 27  | Previous | Year ago |
| NEW YORK             |          |          |          |
| DJ Industrials       | 1,332.77 | 1,323.81 | 1,118.72 |
| DJ Transport         | 661.75   | 656.48   | 466.26   |
| DJ Utilities         | 164.65   | 163.83   | 123.99   |
| S&P Composite        | 191.27   | 190.06   | 151.54   |

| LONDON         |         |          |          |
|----------------|---------|----------|----------|
|                | June 27 | Previous | Year ago |
| FT Ord         | 933.9   | 936.5    | 807.1    |
| FT-SE 100      | 1,234.3 | 1,236.5  | 1,098.3  |
| FT-A All-share | 594.85  | 598.14   | 483.87   |
| FT-A 500       | 648.25  | 651.35   | 527.04   |
| FT Gold mines  | 432.2   | 438.0    | 642.4    |
| FT-A Long gilt | 10.58   | 10.60    | 10.92    |

| TOKYO      |           |           |           |
|------------|-----------|-----------|-----------|
|            | June 27   | Previous  | Year ago  |
| Nikkei-Dow | 12,841.60 | 12,910.23 | 10,311.00 |
| Tokyo 30   | 1,024.0   | 1,028.30  | 789.27    |

| AUSTRALIA      |         |          |          |
|----------------|---------|----------|----------|
|                | June 27 | Previous | Year ago |
| All Ord.       | 861.6   | 862.0    | 650.4    |
| Motels & Mins. | 505.8   | 508.8    | 413.6    |

| AUSTRIA      |         |          |          |
|--------------|---------|----------|----------|
|              | June 27 | Previous | Year ago |
| Credit Adlon | 102.10  | 102.29   | 54.04    |

| BELGIUM    |          |          |          |
|------------|----------|----------|----------|
|            | June 27  | Previous | Year ago |
| Belgian SE | 2,313.58 | 2,314.57 | -        |

| CANADA        |         |          |          |
|---------------|---------|----------|----------|
|               | June 27 | Previous | Year ago |
| Toronto       | 1,584.8 | 1,586.6  | 1,864.0  |
| Metals & Mins | 2,701.1 | 2,704.8  | 2,210.4  |
| Montreal      | 131.51  | 131.81   | 107.78   |

| DENMARK |         |          |          |
|---------|---------|----------|----------|
|         | June 27 | Previous | Year ago |
| SE      | n/a     | 196.76   | 182.55   |

| FRANCE        |         |          |          |
|---------------|---------|----------|----------|
|               | June 27 | Previous | Year ago |
| CAC Gen       | 225.7   | 228.4    | 170.0    |
| Ind. Tendance | 127.0   | 128.5    | 89.3     |

| WEST GERMANY |         |          |          |
|--------------|---------|----------|----------|
|              | June 27 | Previous | Year ago |
| FAZ-Aktien   | 478.15  | 473.64   | 347.78   |
| Commerzbank  | 1,411.2 | 1,389.7  | 1,001.8  |

| HONG KONG |          |          |          |
|-----------|----------|----------|----------|
|           | June 27  | Previous | Year ago |
| Hang Seng | 1,581.70 | 1,585.19 | 924.97   |

| ITALY      |         |          |          |
|------------|---------|----------|----------|
|            | June 27 | Previous | Year ago |
| Banca Com. | n/a     | 337.46   | 211.49   |

| NETHERLANDS |         |          |          |
|-------------|---------|----------|----------|
|             | June 27 | Previous | Year ago |
| ANP-CBS Gen | 211.0   | 210.4    | 154.7    |
| ANP-CBS Ind | 175.0   | 174.6    | 123.8    |

| NORWAY  |         |          |          |
|---------|---------|----------|----------|
|         | June 27 | Previous | Year ago |
| Osto SE | 321.86  | 322.21   | 241.74   |

| SINGAPORE     |         |          |          |
|---------------|---------|----------|----------|
|               | June 27 | Previous | Year ago |
| Straits Times | 785.20  | 784.27   | 679.71   |

| SOUTH AFRICA    |         |          |          |
|-----------------|---------|----------|----------|
|                 | June 27 | Previous | Year ago |
| JSE Golds       | -       | 1,010.9  | 961.0    |
| JSE Industrials | -       | 978.5    | 936.7    |

| SPAIN     |         |          |          |
|-----------|---------|----------|----------|
|           | June 27 | Previous | Year ago |
| Madrid SE | 105.20  | 104.99   | 86.39    |

| SWEDEN |          |          |          |
|--------|----------|----------|----------|
|        | June 27  | Previous | Year ago |
| J & P  | 1,333.14 | 1,315.42 | 1,477.47 |

| SWITZERLAND    |         |          |          |
|----------------|---------|----------|----------|
|                | June 27 | Previous | Year ago |
| Swiss Bank Ind | 443.5   | 443.3    | 357.9    |

| WORLD         |         |       |          |
|---------------|---------|-------|----------|
|               | June 26 | Prev  | Year ago |
| Capital Int'l | 213.9   | 213.3 | 173.8    |

| GOLD (per ounce) |          |          |          |
|------------------|----------|----------|----------|
|                  | June 27  | Prev     | Year ago |
| London           | \$317.00 | \$317.25 | -        |
| Zurich           | \$316.00 | \$317.25 | -        |
| Paris (fixing)   | \$314.46 | \$315.03 | -        |
| Luxembourg       | \$316.75 | \$315.75 | -        |
| New York (Aug)   | \$318.80 | \$318.70 | -        |

\* Latest available figure

### CURRENCIES

|             | June 27 | Previous | June 27 | Previous |
|-------------|---------|----------|---------|----------|
| (London)    | June 27 | Previous | June 27 | Previous |
| U.S. DOLLAR |         |          |         |          |
| \$          | -       | -        | 1.2925  | 1.2996   |
| DM          | 3.059   | 3.043    | 3.955   | 3.956    |
| Yen         | 248.95  | 248.4    | 322.0   | 322.75   |
| FFr         | 9.3175  | 9.2725   | 12.04   | 12.06    |
| SwFr        | 2.564   | 2.5325   | 3.3125  | 3.295    |
| Guildder    | 3.447   | 3.4345   | 4.4575  | 4.46     |
| Lira        | 1.9485  | 1.9460   | 2.6200  | 2.6250   |
| BFR         | 61.6    | 61.35    | 79.6    | 79.55    |
| CS          | 1.3635  | 1.364    | 1.763   | 1.7684   |



## FINANCIAL TIMES SURVEY

## ISLE of MAN

Among today's offshore financial centres, the Isle of Man has good potential for expansion. The island's infrastructure of professional services for the financial sector is undergoing continual development

## New mood of confidence

By IAN HAMILTON FAZEY

THE CASE for the Isle of Man is summed up emphatically by its Banking Inspector, Mr Jim Noakes. It is simply that world markets need respectable offshore satellites of the three major financial centres of London, New York and Tokyo. The Isle of Man, he says, is the only one left with real room for growth.

Recovery of respectability has been one of the principal fruits of Mr Noakes's presence on the island. He was brought in from the Bank of England after the Savings and Investment Bank collapsed three years ago with £40m of depositors' money.

The official report on the SIB is now in the final stages of completion. If publication does not take place later this year, sources close to the decision-makers suggest that it will only be so as not to prejudice possible litigation against people involved.

But whether the truth emerges through the courts or through publication, the majority view at ministerial and senior government official level seems to be that final catharsis should occur openly to complete the rehabilitation of the island's image.

The Isle of Man can afford this exposure because of what it has done to prevent recurrence. Inspection has been improved and the infrastructure of professional services for the financial sector has been undergoing constant development. Auditors, for example, now have to be big enough to afford the premiums on a £10m indemnity for banking clients and a £5m one for insurance customers.

There has been an embargo on new banking licences since the SIB crash. Only those with a good, sound name need apply,

says Mr Noakes. Clydesdale has recently been granted a deposit-taking licence.

Other leading names are likely to follow, but the resumption of growth will be calculated and careful.

These developments enabled the Isle of Man Government, under Dr Edgar Mann—who is its new chairman of executive council and in effect, the island's "prime minister"—to send a high-powered delegation to New York last month to sell the case for growth as an offshore centre.

## Wide interest

By all accounts, Mr Noakes was one of the star performers, along with Dr David Moore who, as Dr Mann's successor in the chair of the island's Finance Board, is the Manx equivalent of the British Chancellor of the Exchequer.

Dr Moore says that a seminar, held for 65 people, who had been carefully selected from an over-subscribed rush for tickets, has led to several very promising inquiries. Mr Noakes says: "The message we were giving was something they found difficult to believe. They could not understand why such an island had not been developed. They wanted to know what the drawbacks were."

But even the drawbacks were sold as assets, Mr Noakes says: "There is only a small pool of experienced people, there is a shortage of first-class office space and hotels, and an under-developed professional infrastructure. But if we had these things now, we would not be offering all the space and other things we have so much of."

"New York, Tokyo and London all need offshore satellites. Landed in the Channel Islands and the Isle of Man, but the Channel Islands are full up."

"If you look round the world at existing offshore

centres and hope to find political stability, the English language, a strong base of common law, low costs, availability of work permits, an absence of official restrictions, good communications, room to develop and geographical proximity to one of the three major financial centres, then the Isle of Man comes out at the top of the list."

Disenchantment with the Caribbean, particularly after recent drugs scandals, has prompted some American financial services companies to start looking hard for alternatives. And although some on the island have worried that the SIB would become a cross between a spectre and an albatross to haunt and drag them down, there have been far more significant and recent banking collapses in London, Hong Kong and the U.S.

Bullish elements on the island point out that these happened in well-regulated places. At the time of the SIB collapse, the Isle of Man had only part-time supervision. The supervisory machinery now in place and the quality of its staff — plus the fact that the Manx Government has spent £1m on the SIB inquiry so that lessons can be identified and learnt — are all seen as key points when selling the island's potential in world financial markets.

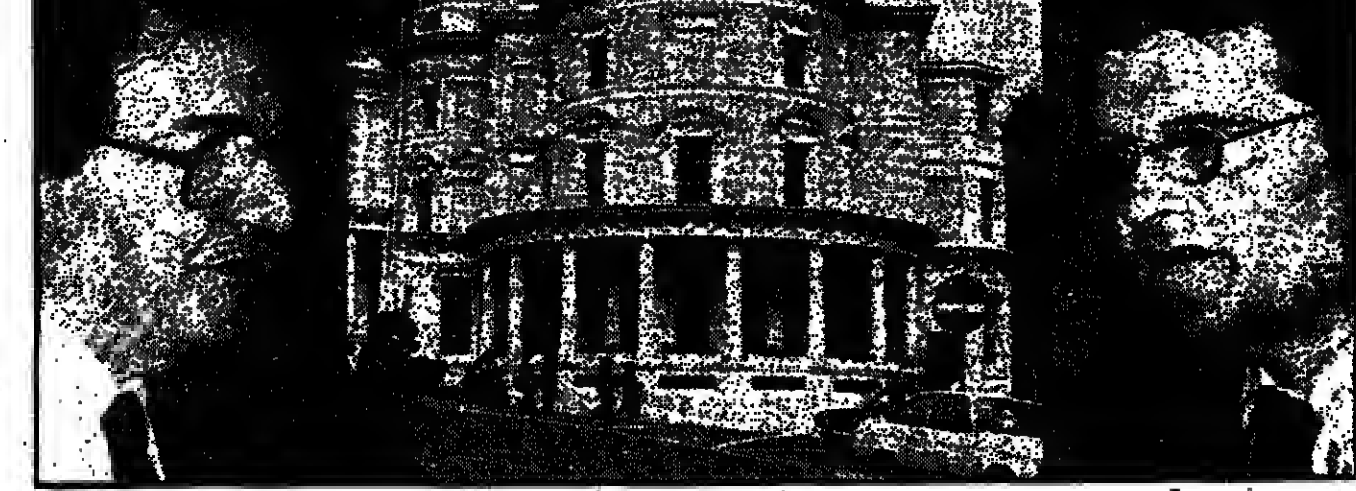
If this makes it look as though the financial services sector is assuming an ever-increasing importance in Manx life, then that is because it is true. As never before on the island, people are bowing to the facts and the trends: finance is now the biggest single money-earner for the economy, contributing 21 per cent.

The manufacturing sector is less than two-thirds of this size, providing 13.7 per cent of income. Tourism is showing a decline at 10.8 per cent, slightly ahead of construction at 10.4 per cent. Public administration

is under 8 per cent and miscellaneous services together bring in 33 per cent. All this is among a population of just under 65,000, whose gross domestic product is only £182m and Gross National Product just over £195m.

Although great incentives are offered to attract manufacturers to the island, there is a limit to what is practicable to manufacture there. Much established industry is light manufacturing, concerned with high value-added goods that are small or light enough to be exported as air freight. These products are made by small or highly mechanised companies and do not create many jobs.

Expanding financial services, however, will bring employment. Many of the jobs will be in areas such as information technology and will fit in with the view of an increasingly large group of Manx opinion leaders that the long-term aim should be a high-wage, high-



Dr Edgar Mann (left), the new chairman of the Executive Council and, in effect the island's "prime minister" and (right), Mr Jim Noakes, Banking Inspector. The Government Buildings (centre) at Douglas houses the Tynwald or island parliament.

technology economy. At present, average income is only 70 per cent of the UK's. It used to be fashionable to laud this as an indication of cheap labour costs for manufacturers, but that has ended.

potential disparity with the earnings power of those in the financial sector is unlikely to be good for the long-term political stability needed to encourage financial sector growth.

Politics at the moment are not just stable, but in near stasis. This is because the 24 members of the House of Keys — the Lower House of Tynwald, the Manx Parliament — face a general election in November, 1986. Since they sit as independents — there is no party system — they fear to bind their successors.

Unpopular or potentially divisive measures will not even be considered before the election, though some, such as the abrogation of the customs agree-

ment with the UK, are likely to become key election issues.

**Key areas**

So might the style in which the island is managed. At present this is via a series of boards covering such fields as finance, industry, tourism, harbours and the like. Though linked through the island's executive council, each is largely autonomous. Dr Mann, the new head of Government, sees a progression towards better co-ordination as a first step towards a cabinet system.

This would give greater thrust to Government and policy-making and take the island away from the present system, which inevitably ensures that only the simplest, most uncontroversial things are ever agreed quickly. The main consequence in some key areas has been drift and uncertainty. Many realise that this will not help the island's development in international

markets. Many people on the island would have liked to have seen it stay an undeveloped, unpolished anachronism in the middle of the British Isles, but even most of them acknowledge that things could not have gone on like that for long. With tourism declining and diminishing job opportunities, emigration of the talented young would have accelerated. The economy, with nothing to grow on, would have fallen into a downward spiral.

What concentrated everyone's mind was the SIB collapse. The Manx people are overwhelmingly honest, fair and not used to the odium that followed. Putting matters right forced fundamental reassessment of what the island stood for and where it is going.

The inevitability of change and the need to control it was never more obvious. Yet only four or five years ago there was still a strong element of isolationism apparent. This is why the island is so underdeveloped. If visitors — or anyone else for that matter — were uncomfortable, the attitude was straightforwardly one of: "If you don't like it, there's a boat for Liverpool at nine o'clock every morning."

It was then inconceivable that by the summer season of 1985 the boats would no longer be going to Liverpool, but to an obscure harbour in north Lancashire — and not even at 9 am.

But there is now in the island's atmosphere a new, emergent confidence. Optimism has replaced the sometimes cynical, neo-Celtic fatalism that was more readily apparent before.

One result of it all is that people — including the Lieutenant-Governor — have lately been warning each other in public to beware the Manx crab. This derives from a modern fable of Manx fishermen who, when warned by visitors that some crabs in the quayside market had climbed halfway out of their buckets and might escape, replied that Manx crabs never let such things happen. The rest would pull the clammers back to assure their mutual destruction.

Courageous. Vikings, not crabs, are what the island needs now.

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Courageous. Vikings, not crabs, are what the island needs now.

## Isle of Man

# The offshore opportunity for the richer life

On the Isle of Man, we keep incentives high, taxes low and have a strong regard for non-financial "riches" — the quality of life. Whether you are starting or expanding a business, relocating your home, or thinking of retiring, we make sure the tax burden on your enterprise, earnings or income is light. Our personal income tax is a flat twenty per cent and there are no capital gains, corporation or capital transfer taxes.

We offer such positive incentives for newcomers to encourage the use and development of our wide variety of property and resources. Isle of Man housing is excellent value, combining low prices with modest local rates. Our modern industrial buildings have similarly low overheads: typical annual charges for a 3,000 square foot site are £2.00 per square foot rental and total rates as low as £250.

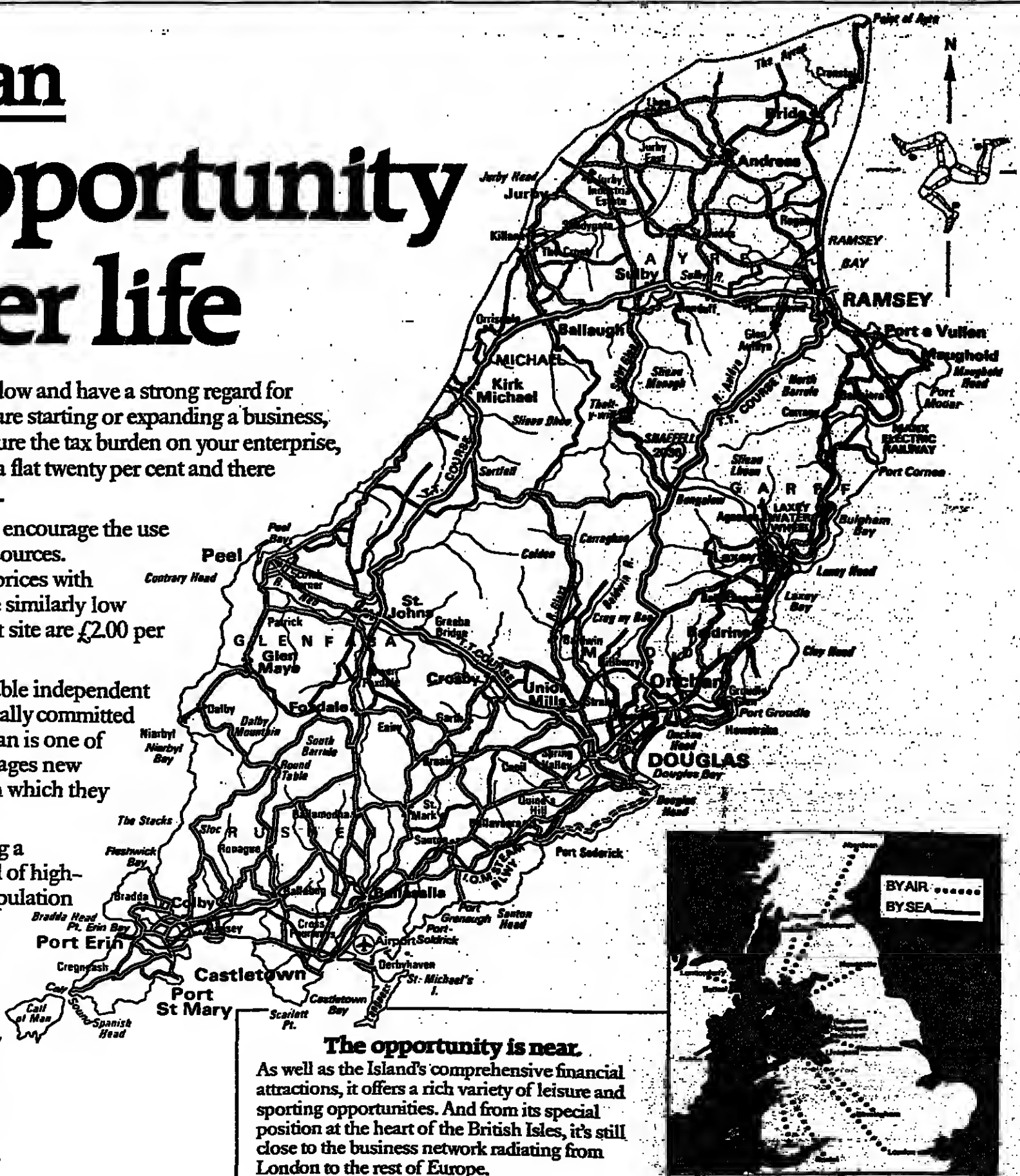
We have a history of over one thousand years of stable independent government which is distinctly non-political and realistically committed to the needs of commercial development. The Isle of Man is one of the few low-tax areas worldwide which currently encourages new residents and provides the space and business climate in which they can prosper.

Our high quality of life results from our maintaining a low-crime environment in an increasingly violent world of high-density living. In our 221 square miles with its 65,000 population you have room to breathe. And our variety of scenery, from the summit of Snaefell to the sands of our varied coastline, makes a unique setting for the only off-shore financial centre in Europe with freeport facilities.



## Isle of Man '85

For an information kit, write or call Bill Murray, Commercial Development Officer, Ref. FT6, Government Offices, Douglas, Isle of Man. Telephone (0624) 26262. Telex: 628612 IOMAN G.



## The opportunity is near.

As well as the Island's comprehensive financial attractions, it offers a rich variety of leisure and sporting opportunities. And from its special position at the heart of the British Isles, it's still close to the business network radiating from London to the rest of Europe.

John's SA







## Isle of Man 3

International link-ups  
increase steadilyProfessional  
infrastructure

IAN HAMILTON FAZEY

WHEN Breadner Moorhouse, a small but expanding island firm of chartered accountants, decided it was time to join a rather larger league, the partners found no end of suitors.

It is a sign of the times on the Isle of Man that four of the "big eight" accountancy companies all proposed marriage, if not merger. In the end Breadner Moorhouse turned them all down—it had already set its cap after a fifth of the giants, Coopers and Lybrand.

A year ago, the practice became a Coopers and Lybrand associate. Since then, both firms have had a good look at each other and the islanders have proved themselves up to exacting professional standards.

The result of this trial marriage is that Breadner Moorhouse is now no more. It has become a full member firm of the international group and now practices as Coopers and Lybrand on the island.

There are other signs of development in the Manx international financial infrastructure. Arthur Andersen announced that it is setting up on the island, too. Meanwhile, they all have a way to go to catch Peat, Marwick, Mitchell and Company, and Touche Ross, both of which have resident partners in Douglas.

Peats has been on the island 12 years though, until the arrival of Mr Peter Pell-Hiley, it was run as a small offshoot of the Liverpool office.

"We took a conscious decision three years ago to increase resources," he says. Local staff has since quadrupled to 20.

With particular corporate strengths in servicing banking and insurance clients, Mr Pell-Hiley hopes to pick up considerable business as the financial sector expands. He has already done the island a considerable service by producing what is probably the most straightforward booklet explaining the Manx constitution, legal and tax systems. More than 1,500 have gone to selected Pexis clients, worldwide.

It even rivals the excellent publication of the island's biggest accountancy practice, Pannell Kerr Foster, whose local founder was the Liverpool liquidator of Dumbells Bank, which collapsed in 1900.

Pannell's worldwide group ranks only in the mid-tens of the size league, but senior partner Mr James Cain sees the influx of four of the big eight, so far, as good for everyone and certainly as no threat.

He says: "Growth of the financial sector will be in part dependent on growth in the professions. Members of the big eight will only move to a location if they can see prospects of growth. It will be good for us too."

Pannells has been growing, anyway: there were 10 staff in 1984, 18 ten years later but 70 now, including eight partners. Inevitably, the firm now faces competition for Manx public sector audits, where it has long reigned supreme, but it has a depth of local knowledge and facilities that are a formidable strength.

Touche Ross's resident partner, Mr David Burton, says: "We were setting up in virgin

territory and it was regarded as a brave move. But we had done our homework. We have a widening net of contacts and are growing."

The value to the infrastructure of the accountancy giants was demonstrated this month when Mr Burton ran a seminar on the European Community, flying in Touche Ross's director of European affairs, Mr John Drew. This attracted about 100 Manx political, civil service and business leaders and seems to have clarified a great deal of thinking.

However, a greater value was apparent in the Government mission to New York when Mr Burton and Mr Pell-Hiley spent time in their firms' offices selling the advantages of the Isle of Man for American clients. Mr Stephen Moorhouse recently did similar services in Coopers and Lybrand offices in South East Asia.

## Requirements

Manx financial supervision requirements now include auditors' indemnity insurance of up to £10m, so only the larger firms are likely to be able to bid for much of the business the island is now hoping to attract. A lot of it could well come out of their international client networks.

Development of the other arm of the professional infrastructure the law—is less obvious, however, but pressure to change is mounting from within government. At present, the 37 Manx advocates—they practise both as solicitors and barristers—are a closed shop, jealously guarding against incursion by lawyers from other jurisdictions. Wide experience of international corporate and taxation law is an acknowledged lack.

The need to allow outsiders in has been pressed now in several official reports and criticism of this gap in the infrastructure is widespread among the supporters of a developing financial sector. Apart from anything else, there is likely to be too much for the tiny legal sector to cope with.

Better training of lawyers is also being considered and the attorney general has recently been discussing this with Lancashire Polytechnic's Law School.

Meanwhile, British Telecom has continued to develop the electronic infrastructure, with first-class telephone facilities, though the island has yet to get its own packet switch stream transmission, relying on the costlier telephone link to Liverpool.

However, local access to Prestel has just opened up, among the first beneficiaries being the legal database, Lawtel, whose creator is Mr Gerald Impey, a retired barrister who lives on the island.

The database, which is gradually expanding to cover all British, Commonwealth and Manx law is becoming one of the most important in the world.

Mr Impey, who has not been able to stop work since he started it up four years ago, after taking a computer course, expects to gain from the growth of the Manx financial sector, too.

Moves to  
set up an  
insurance  
exchange

DUNCAN NEIL wants an insurance exchange established on the Isle of Man. He expects the idea to meet hostility in the City of London but hopes that it will nevertheless receive serious attention when the initial fuss has died down.

Mr Neil is no crackpot with a half-baked idea. He is the island's insurance supervisor, brought in at the same time as Mr Jim Noakes, the banking supervisor, to tighten official inspection in the financial sector.

His own background involved the mega-risks of the international chemicals industry. He thinks that the Isle of Man could become an important world centre for exactly that sector, together with the insurance of other technology projects, such as launching satellites.

Behind the idea lies what he believes to be a weakness in the London insurance market, where the taking of profits—or losses—year by year works against the build-up of what he calls "catastrophe reserves."

Insurance companies in the Isle of Man can take advantage of the 1981 Exempt Insurance Companies Act. This exempts them from tax on risks written outside the island and includes profits from underwriting or investment income. Distribution to outside shareholders can also be made without deduction of Isle of Man withholding tax.

Offering more  
flexibility

Combined with new island legislation, scheduled for this autumn, which will make it possible to establish an insurance exchange, catastrophe reserves could be built up over 10 year periods without underwriters and members of insurance syndicates noticing much, if any, effect on their net profits.

They would in fact be built up from tax-exempt gross profits. The insurance exchange would, in effect, be a local market capable of great flexibility in handling complicated "mega-risk" business.

Mr Neil says: "The British insurance industry needs the flexibility that an offshore centre within the British Isles can give the London market."

"It would have to be between six and 12 syndicates based in high technology areas such as satellites and chemical industry liabilities."

"Decisions would be made here, but based on advice in London. Documentation would be issued from here. You could deal in these risks on a 10-year basis rather than the one-year basis of the City. You would build up catastrophe reserves out of continuing profits," he adds.

Potential members of the exchange would be corporations which have established captive insurance companies to handle their own risks, normal insurance companies from around the world, as well as those involved in reinsurance.

Mr Neil says: "I would like to see a feasibility study carried jointly by industry and the insurance world."

He himself was a key figure in the 1970s collaboration between the chemicals industry and major insurance companies on how to deal with the mounting cost of insuring risks in that sector, following which captive insurance companies became popular as inflation pushed premiums through the roof.

Opportunities for  
management

He says: "The big question facing world insurance markets is how do you build up funds to satisfy the needs of the 1990s?"

He hopes that the island's improving reputation as an insurance centre will help the ideas being taken seriously. Two years ago the island was a joke in the insurance world.

"There is a much greater awareness in the City now of the Isle of Man as a valid insurance sector. More and more people are coming to look what we need are more people to live and work here in the business," he says.

The figures speak for themselves. From practically nothing in 1982, there are 32 licensed companies now—15 captives, seven life, six reinsurers, and four in general insurance. Six new ones have set up this year and one major broker.

Mr Neil wants incentives to persuade brokers who have set up in Guernsey to establish parallel operations in Douglas. He says there are growing management opportunities for captives as interest in these companies grows in turn with rising premiums for industries with large but unlikely risks.

Mr Neil says: "Apart from taxation there are many other advantages here, such as space to move in, solidity and stability. We need proper insurance infrastructure but I am very bullish about the next few years."

IAN HAMILTON FAZEY



The Isle of Man's new 1 oz gold Angel coin will soon be available to British and European buyers. The island's platinum Noble is already firmly established in the bullion market.

Golden Angel joins  
the bullion sector

## New Coins

W. R. CLUCAS

BRITAIN'S GOLD sovereign has traditionally been a popular bullion coin. It has the disadvantage, however, of being an awkward weight, which is a reason why South Africa's kruggerand, containing an ounce of fine gold, has dominated the bullion market in recent years.

Now the kruggerand has two competitors. First newcomer in the field was the Canadian Government with its \$50 Maple Leaf. This is also a fine gold, 1 oz coin.

The Isle of Man, already in the bullion coin field with the platinum Noble, produced in association with Pohjoj Mint of Surrey, is now entering the gold bullion coin sector with the Angel. This 1 oz coin is, technically, legal tender in the Isle of Man, with a £5 value. It is already on the U.S. market and will soon be available to British and European buyers.

It was in 1341 that the first coin to bear the name Angel was minted in France, with an English version following in 1463. Both coins had one common feature—the reverse side showed the Archangel Michael, slaying a dragon. The last English Angels were minted around 1631, and seem to have been part of the output of the first mechanical coin-producing process of Nicholas Briot.

Following tradition, the Manx Government has retained the ancient form of the reverse side for its coin. Medallist sculptor Leslie Lindsay was commissioned to design it. The figure of the Archangel Michael, slaying the dragon, is surrounded with a Celtic frame, having, at the top of the coin, the island's own three-leg crest. Isle of Man Finance Board

chairman, Dr David Moore is confident that the Angel will find acceptance in the bullion coin market.

"It is minted of European gold, and while the Maple Leaf may be the first alternative to the kruggerand, it has proved difficult to handle because of its softness. The Angel has no such problems," he says.

As the Angel coin gains recognition in the world's bullion market, there are plans to mint a family of Angels ranging in size from 10 gms, which will be a 63mm-diameter coin, to a 0.1-oz coin which will have a diameter of 16.5mm.

In both France and England, the Angel has associations with a ceremony of touching for the King's Evil, an ancient tradition that the touch of a hand of the monarch could cure skin complaints.

By the reign of James I, English Angels were pierced with a hole so they could be worn as a pendant. The Pohjoj Mint, where the Angels are struck, is launching jewellery to keep up that tradition; each piece will carry a one Angel coin.

The Noble, the only platinum bullion coin, is now firmly established in the market. For the present, it is being minted in a 1-oz form, but the Manx Government has power to produce a family of Nobles, ranging, like the Angel, from 10 to one-tenth oz in weight.

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insurance contributions for income tax purposes.

- Tax holidays for up to five years for new companies. This new provision is an alternative to capital grants and is aimed at companies which may become profitable quickly and require little capital equipment.
- A freepoint. Although mooted ahead of UK counterparts, progress has been slow. Development is now with British Land.
- No composite rate tax (CRT) on bank deposits.

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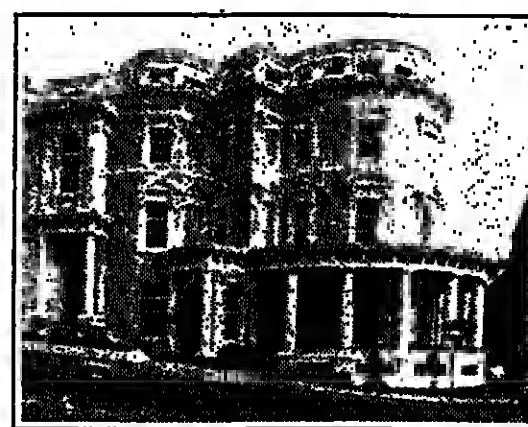
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# Significant changes due next year

## Political scene

IAN HAMILTON FAZEY

DR EDGAR MANN hopes for significant changes in the governance of the island during the next few years. But if he is cautious it is because he must secure the consent of Tynwald, the Manx Parliament, to achieve them. A single vote of no confidence would remove him in a flash.

Most people think, however, that Dr Mann is quite safe in his new job—the chairmanship of the island's Executive Council, or "Exco," as it is widely known. Stability has always been one of the Isle of Man's long suits and frequent changes of personnel would not fit with the image.

Dr Mann took over in March, succeeding Mr Percy Radcliffe on his retirement. The job makes him the Isle of Man's "Prime Minister," but it is not quite like such office elsewhere, which is one of the things Dr Mann hopes to see change.

## House of Keys

He was elected by the whole of Tynwald, whose Lower House comprises the 24 directly-elected members of the House of Keys. The Keys elects eight of the 10 members of the Upper House, the Legislative Council.

Day-to-day running of Government is carried out by boards of Tynwald, covering such areas as finance—where Dr Mann was in charge—industry, tourism, harbours and the like.

The executive council used to comprise anyone Tynwald wished to put on it. Now, it automatically includes the chairmen of the boards. Dr Mann sees this as a first step towards cabinet government but it does not go the whole way because the "Prime Minister" does not pick his team: Tynwald appoints the board chairmen.

But constitutional changes

mean that he will be able to choose for himself after the next elections for the Keys, in November, next year. The development will be significant for the island, bringing a co-ordinated thrust to central policymaking.

There is understandable nervousness about who will be elected to the pool he can choose from. And Dr Mann—who, as a member of the Upper House, does not have to face the general electorate—will not presume to take the confidence of the new Tynwald for granted.

The result is that many issues on the island have now gone into a political limbo. There is no party system—politicians no function as independents—so no one wants to bind their successors.

However, Dr Mann is pressing on with reforms he can co-ordinate the boards more closely than ever. One vital area he is sorting out is promotion. Each board had its own budget for it and the messages did not always mesh. They are beginning to do so now.

He also wants to set up a sub-committee of Exco to plan economic development, although some aspects of policy are already targeted firmly. Population growth is one of them, with a net increase of 10,000 in the next 10 years.

Dr Mann says: "We don't just want millionaires, whatever people think, and people who want to retire here with their assets will always be welcome. But we need vigorous people who can bring skills or money that will help develop our economy."

In fact, there is no immigration policy on the island, only control, via work-permits. Dr Mann says that permits will be no obstacle to anyone with skills to offer, particularly in the financial services sector. He himself proves the point. Despite his name, he is an immigrant, having moved from Britain only 12 years ago after a former colleague had left him his Manx medical practice.

Nor do immigrants have to come from Britain. Indeed, as the island develops in international financial markets, Dr

## Isle of Man 4



Hotel and boarding house owners on the Isle of Man are among the strongest supporters for the ending of the customs agreement with the UK—one of the key political issues to be faced in the island's general election in November 1986.

Mann would like to see it becoming increasingly cosmopolitan, with many more new residents from Europe in particular.

One of the issues that has been shelved until after the elections is whether to abrogate the customs agreement with the UK. This gives the island the same rate of duty on goods as Britain and ties it to the UK's rate of value-added tax.

Two years ago, when the issue was last debated, manufacturing industry leaders carried the day amid fierce controversy. Some companies threatened closure or relocation back to Britain if they had to face customs barriers arising from abrogation, despite the fact that many find them no problem when exporting to other markets.

Since then, the debate has been simmering, with a much wider awareness of the issues and a better understanding of what lack of a customs agreement has done to stimulate the Channel Islands' economies. The sight of Irish visitors who face much higher duties and sales taxes at home—spending significant sums on high-value electrical goods in Douglas shops has also made people pause in following the industrial lobby.

Dr Mann thinks that abrogation is probably inevitable and that the resultant reductions in duty would surely pay off, long-term. But he also says that politicians dare not take the risks of transition without mandate, which means that the issue is going to be a hot one in the election.

## PROFILE: ALBERT GUBAY

# Millionaire with forceful views

ALBERT GUBAY, globe-trotting Welsh grocery millionaire, property developer and, from 1983, full-time Isle of Man resident, personifies a commercial aggressiveness that is making some people in the Manx establishment rather uncomfortable.

There is a common feeling that he should enter Manx politics to add some bulldozing force to the island's ponderous style. Staccato gestures, emphatic and punctuated his reply.

"I don't want to be a big shot," he says. "I am not interested in politics. I'm not that way inclined because I'm a bloody dictator. That's how it has to be when it's your own money at stake. This way, I am not involved with public companies."

Mr Gubay estimates that his company, Montrose Holdings, would be worth up to £200m if it were capitalised. He made his money out of the Kwak Savu supermarket chain, using the proceeds from selling it to compound his fortune with similar ventures in the U.S. and New Zealand.

Last year, fed up with others making money on his money, he bought the Celtic Bank, on the Isle of Man. In January, he sold his last remaining grocery business—it was in Auckland—and settled down in what he regards as his real home.

He has had a house on the island since 1971 and has lived part of each year there ever since. His growing business in UK property developments has persuaded him to spend £22m on a 10-seater Gulfstream Com-mando jet-prop—he can get round several projects in a day and not have to use up any of the 90 nights he is allowed to spend in the UK without being classified as a resident for tax purposes.

He is also developing property on the island, spending £2m on a new building for his bank and £1m on a shopping precinct that will transform retail business in Ramsey. But he does not want these ventures misinterpreted: they are not speculative—the Ramsey project centres on a super-market project to Lipton's and the bank is needed to advance his own business.

When the Harbour Board vetoed the most logical entrance because it might cause traffic congestion on the adjoining quay, the Local Government Board's response was a prohibitively costly spiral ramp and bridge.

There was no single person to negotiate with, I decided to put my money into the north west where they are more welcoming of new investments that create jobs," says Mr Gubay.

Perhaps Mr Gubay has been dealing at too low a level. Dr Edgar Mann, the new chairman of the Executive Council, is determined to make government decision-making better. He says: "We have never actually met. Mr Gubay has not directly approached any government department about what he feels should be done for the Isle of Man. He would be very happy to meet him, at any time."

There may well be a little of Mohammed-and-the-mountain about this, with Mr Gubay awaiting the call to advise and the government awaiting his offer. But he has struck some common chords and many think that as someone already putting a lot of his own money into the island, his views are worth more than most. Since he has put-off fellow millionaires who have recently asked his advice about investment, they are probably right.

I am not prepared to put up speculative money unless the climate is right for attracting new entrepreneurs. The island should be duty free to get people over here to spend more," he says.

Mr Gubay even wrote to Professor Milton Friedman, offering to pay him a consultancy fee to advise on how to develop the Manx economy. Prof Friedman declined on the grounds of academic commitments, but suggested Mr Gubay try Prof Arnold Harberger, instead. Mr Gubay is considering this.

More immediately, he has put up a yearly £50,000 of prize money to attract new manufacturing companies. The first winners will be picked from a short-list of six later this year. There may be one or more prizes, or none. Any of the £50,000 that is not awarded will be given to a Manx charity.

It is a symptom of Manx suspiciousness that some people mutter darkly that his motive must be to acquire interests for his own gain in any promising new ventures that arrive. But Mr Gubay says he just wants a healthier economy so that everyone, including himself, can benefit in a general way.

## Action man

The problem he faces, however, seems to be about style. Probably no government is entrepreneurial enough for the speed of decision-making at which Mr Gubay functions. Red tape and "channels" enrage and frustrate him. He is the sort of proven action man who freezes bureaucrats into disoriented, shock-absorbing, unresponsive inaction. He says letters go unanswered and proposals disappear into the Manx network of governing boards.

An example was his offer to build a £2m multi-storey car park over their bus station and air terminal to ease Douglas's chronic parking problem, the main characteristic of which is kerbside anarchy. This plan foundered when his agents told him that he would have to simultaneously persuade the Borough of Douglas, the Highways Board, the Passenger Transport Board, the Airports Authority, and the Harbour Board, of which could impose conditions.

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# Demand for more top-class hotels

LACK of international-class hotel rooms has been one of the most widely-criticised pieces of missing infrastructure needed by the Isle of Man's financial sector.

This year's suggested remedy has been to build a modern hotel and conference complex at Ronaldsway Airport. Favoured though this idea is in government circles, there is no sign yet of the real interest by a developer.

Meanwhile, the island's only sizeable concentration of standard rooms remains at the 138-room Palace Hotel on Douglas's Central Promenade. The hotel complex includes an exhibition and conference centre, as well as the island's Casino. Hobson's choice has been the usual reason given by many business travellers for staying there.

The Palace's response to criticism is, however, very obvious this year. So far, it has remodelled nine rooms as "executive" accommodation, spending about £7,000 on each. These rooms are well up to average international standards, with good quality decor and furniture, trouser press, ample working surfaces and a table-top as well as a bedside telephone.

The developments have followed the arrival as general manager of Mr Barry Gregory, who has experience of American hotel-keeping. Along with four suites, they give the

## Business accommodation

IAN HAMILTON FAZEY

Palace a nucleus of higher quality rooms and are already in heavy demand by regular visitors.

About £500,000 has also been spent on the Palace Lido, the adjoining conference and exhibition centre, including advanced electronic equipment and laser lighting.

The Palace's management is sanguine about potential competition. Spokesman Paul Gaskell says: "The winter consumes most of the gains we make each summer. To operate the casino, we have to run for 22 hours a day throughout the year. There is no strong base of island residents to make the casino pay, so it is not as profitable as it might look."

Although cynics on the island might expect such encouragement of potential rivals, many concede the point. It will probably need substantial development of the financial sector, with a year-round flow of overnight visitors, for the market to become strong enough. The situation is classically chicken-and-egg with considerable downside risks for a developer, especially if the Palace continues to try harder.

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## Isle of Man 5

## Set for an early flotation

## Manx Airlines equity

IAN HAMILTON FAZEY

PART OF the equity in Manx Airlines will be floated later this year, fulfilling its initial promise to let islanders have a stake in the carrier if it became successful. But what is remarkable is that flotation—involving, initially, a fifth of the stock—comes less than three years after the airline started operations. A five-year time scale was originally thought the best that could be hoped for.

Manx is going to the market early because it is already paying back its original investors. It lost an expected £250,000 in its second year but wiped that out in its second year, Chief Executive Terry Liddiard is expecting doubled profits of £500,000 in 1985.

Sales growth has gone from £7.4m in 1983 to about £8m last year and is budgeted at £10m this. Yet Manx took over the bulk of the island's air services after uphill struggle, constant losses and failure by British Airways. It was formed after its majority shareholder, British Midland, had stepped

into the breach. Good marketing is only part of the answer. Analysis of what Manx's management actually does tells much of the story and explains why a small, highly motivated, locally-based company can succeed where remote giants fail.

In fact, the management has to be very tight indeed. Tim Stevens, the commercial manager, says: "We carry more than 250,000 passengers a year now. If the average yield goes down by £2 per passenger, that wipes out the profit. One passenger less per flight would mean losses too. The balance is very fine."

The key to achieving this early was a decision to opt for completely computerised management systems from the outset, though the first system proved too small and had to be replaced within a year (it is now being adapted to do all of the company's word processing).

The 11 administrative and accounts staff use their terminals continuously, receiving nearly instantaneous feedback on operational performance. This is critical if fare yield per passenger is to be monitored. There may well be up to six different fare rates on any flight, depending on when passengers book and what special

offers are available. If the computer shows a drop in yield per flight it may lead to increased promotion for that particular route or to a reduction in capacity—one flight less perhaps—to get the figure back up. Or it may be because a special low-fare offer has proved more popular than anticipated, prompting its early curtailment.

The computer has also helped the airline to fight air-bus. None of this would be any use at all of course, if there were not enough passengers. Overall load factors on the main routes show just how well Manx has assessed the market—London, 64.8 per cent; Manchester, 66.4; Glasgow, 62.3; and Liverpool, 62.

## Services

This level of use is achieved despite a drop to only 55 per cent seat occupation in the worst month of the year, February. Only the Dublin route does not make a profit, but Mr Liddiard says that this has to be borne in mind if the airline is to give a truly comprehensive service at the hub of the Irish Sea. It also flies to Blackpool, Glasgow and Belfast, as well as to the Northern Irish capital with Liverpool.

The other key element in Manx's success was fortuitous. It set up just as the Belfast planemaker, Short Brothers was starting to sweep into the marketplace with its new wide-bodied commuter aircraft, the 330 and the 360.

Manx now has two 360s, one 330 and one Viscount, the last of these part of its starting stock. The new aircraft, a Bandeirante to establish routes and generate cash quickly so that the better aircraft could be acquired as soon as they became available.

The mixture of the old and the new forces a check-and-balance situation to operating capital assets. Mr Liddiard says: "New technology makes modern planes expensive to acquire but cheap to fly, so you have to get them in the air as often as possible."

"The Viscount, on the other hand, came cheaply but running costs are high. So we don't mind it sitting around on the tarmac," he adds.

The 73-seat Viscount is used on the twice-daily London route and tells an interesting tale of

marketing outlook. By being based at the island's Ronaldsway Airport rather than Heathrow, the first London flight is at 7.40 am, time enough for business people to reach the city for mid-morning appointments.

It set off back to Ronaldsway at 9.20 am, a reasonable hour for south-east travellers to reach Heathrow but which still gives them time to make 11 am meetings in Douglas. With no travelling problems on the island, a fair day's work can be done before the return flight to London at 5.10 pm.

Meanwhile, the islander has until 7 pm before the flight back from London. Under previous managements, Heathrow-based timetables made it almost impossible to do a day's work in London without an overnight stop.

Small wonder then that the London route is busy, with 60,000 passengers a year. Mr Liddiard expects it to get busier, particularly as the island's financial sector develops. So he has just ordered one of the new £8m advanced turbo-prop (ATP) 70-seaters from British Aerospace.

This will be a lot cheaper to fly than the Viscount but the capital cost will preclude tarmac idleness. So a third London service will start, with a hop to Liverpool, in between.

Manx has also applied for a licence to operate from the airport (short take-off and landing) proposed for the London docklands. This would be an additional London service. But since it would require investment in a specialised high-technology aircraft, Manx would also need other routes to make it pay, so it has applied to fly from dockland to Paris, Brussels and Amsterdam, too.

When shares in the airline are offered, Mr Liddiard thinks that many of the 139 staff, most of whom live on the island, will be near the head of what most expect to be a queue of insatiable applicants.

Staff motivation, he says, is already high because of the airline's island base. Flexibility of working is the rule, with everyone pitching in when anything is needed.

"As a small company we are very high on commitment," he says. Owning even a tiny piece of the action is thought likely to raise that commitment more.

## Signs of recovery at last

## Property market

W. R. CLICAS

ONE of the more serious effects of the recent recession, as far as the Isle of Man was concerned, was the slump of prices in the property market.

It was the case of too many would-be sellers chasing too few buyers, estate agents were overloaded with properties for sale, and often had to persuade sellers to settle at well below the original asking price.

Now there are signs that there is a recovery afoot, while prices are still low, houses are now being sold more quickly; the surplus of available properties is being gradually absorbed.

Mr David Gawn of Chrysalis Brothers, Storr and Kerruish, says there is a slight improvement in demand for domestic property. Although there was little difference in the demand for town or country houses, the market for guest houses is very low, reflecting the depressed state of the tourism sector.

Buyers in general are coming from the UK and the Channel Islands.

A spokesman for Cowley Groves notes a distinct upturn in the domestic property market; the company's main Douglas office reported sales of £1.5m in May.

Demand for housing has been experienced across a wide price range from £8,000 to £300,000. For house-buyers, one problem is that building societies, while they can take deposits, cannot operate on the island. Mortgages come from banks and insurance companies, and private sources. For first-time buyers, the Manx Government operates a building society type mortgage system, with the rate of interest being just raised to 11 per cent.

Legislation before the British Parliament is likely to allow societies to operate on the island in the not-too-distant future. To prepare for that day, Tynwald is putting its new Building Societies' Act on the Statute Book.

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## Manx Line wins the shipping war

## Steam Packet merger

IAN HAMILTON FAZEY

THE ISLE OF MAN'S seven-year shipping war ended in the spring with the surrender of the ancient, venerable and quaintly old-fashioned Steam Packet Company to the overwhelming resources of the invader, the Sealink-owned Manx Line.

The surrender was complicated and not unconditional. The effect was to merge the two companies' operations, with the Steam Packet acquiring a new company, Manx Line (1985), in exchange for giving Sealink a 40 per cent stake.

And although the steam packet is responsible for managing the merged services, the whole transaction was dependent on its agreeing to drop its 150-year-old link with the nearest big city, Liverpool, substituting Sealink's remote and dreary north Lancashire harbour at Heysham as its main UK terminal.

## Not the same

Life on the island has not been the same since. The small shareholders had insufficient stock to stop the merger and keep the cherished link to Liverpool. Theoretically, Sealink's holding is not a majority one but the reality is that it is a controlling interest: the power of the other shareholders has been diluted and is fragmented anyway. On top of that, the Isle of Man Government voted its 15 per cent for the merger.

The reason why was the Government's duty to secure a reliable link to the UK mainland. What was happening was that both shipping lines were losing money in a market declining with the traditional

tourist trade. The Steam Packet lacked Sealink's wider corporate resources and was nearer to foundering. Its directors say that another winter's losses would have sunk it, losing its shareholders' money and leaving Sealink with absolute power. The merger salvaged everyone's interests.

The reality of who is in charge is emphasised by the fact that Manx Line's main asset, a roll-on roll-off (ro-ro) car and freight ferry called the Manx Viking, was not included in the sale. What the Steam Packet got was mainly goodwill: it has to charter the Manx Viking from Sealink.

On top of all that, Sealink has put in its own man, Captain Andrew Douglas, as marketing manager. What is remarkable here is that Capt Douglas was a founder of Manx Line—Sealink bought it in 1980—and worked on afterwards as chief executive.

Four years ago relations between the two companies were bitter—and Capt Douglas told me he would never forgive the merger. The directors for rejoining publicly when Manx Line's linkup—the adjustable ramp that gives access to a ro-ro—was severely damaged in a gale. The damage curtailed the company's operations for months and helped precipitate its sale to Sealink.

Although there is widespread sentiment for the Steam Packet, most people see its passage into Sealink's sphere of influence as inevitable. Convenient as they are for the Douglas Quay, the Steam Packet's side-loading ships are hopeless for bulk freight. The company consistently sailed behind the times, was slow into containers and only went into Ro-Ro freight in response to Manx Line's competition.

The Port of Liverpool also had a self-mutilating part in the drama. It insisted that the Steam Packet needed 44 people

to overcome the Mersey end of its services. They were paid Merseyside rates, putting considerable labour relations pressure on the Steam Packet for its dockers in Douglas to be given parity in terms of jobs—just 11 men did more work at Douglas—and wages.

It was only that the Transport and General Workers' Union was slow to exploit this bargaining power that prevented crisis developing more quickly. As it was, when faced with losing the Steam Packet for good, the Mersey Docks and Harbour Company was suddenly able to offer a reduction in manning to 21. By then, it was too late.

## Savings

Captain Douglas says that crossing to Heysham is 13 miles shorter, producing a 25 per cent saving of fuel that will be worth £500,000 in a full year. Heysham's lack of facilities are thought irrelevant since the purpose of going there is to pass through as quickly as possible.

Deputy General Manager Mr Dick Reeves says that it takes only 10 minutes longer to get to the Heysham Quay to Birmingham, compared with the journey from the Liverpool Pier Head because the 30 miles of extra driving is nearly all motorway.

The Steam Packet's arguments would have gone down better on the island, however, if it had not had some unfortunate experiences with a second-hand ro-ro it bought last winter to sail the route. This ship, the Mona's Isle, is widely known now as "The Banana Boat" because it is bent six inches out of line amidships. Capt Douglas says this does not matter—the Manx Viking has a slight but permanent list to starboard. For instance, and operations are not affected.

## Nostalgia

Meanwhile, the confidence of islanders remains shaken. Day trips to Liverpool for shopping are recalled fondly, even if most people hardly ever made them. Nostalgic stories are retailed of fresh vegetables being rushed from Liverpool Market to the quayside by taxi to catch the boat, despite the fact that refrigerated containers are the only way to actually shift enough supplies.

In the final analysis, the Steam Packet had to succumb to commercial reality, whatever its status as a major Manx institution. That reality was getting grimmer: earlier this month T.T. passenger traffic was nearly 12 per cent down. As the Manx shipping war has proved, the declining tourist market cannot support two operators.

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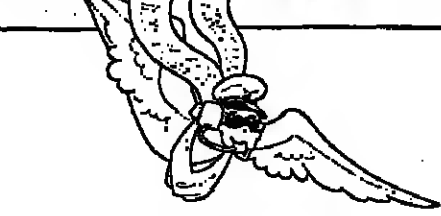
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## Isle of Man 6

# Steady flow of inquiries

## New shipping register

W. R. CLUCAS

WITH THE coming into force on the island of the international Convention on July 1, the Isle of Man Shipping Register comes into being.

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container ship service between Ramsey and Liverpool, three services weekly, using chartered ships. Ramsey has been chosen for the Manx terminal because Douglas, the main commercial port, operates the dock labour system, with high handling costs. At the other ports, access to the harbour for large container carrying lorries is difficult.

Meseron began business, under another name, with a fishing boat, Star of Bethlehem, operating from Peel to Northern Ireland. As business grew, the service was taken over by a small freighter, running on the same route. Then, after a break Meseron was formed. Although

its ships still operate from Peel, from time to time, Ramsey is now its main Manx port.

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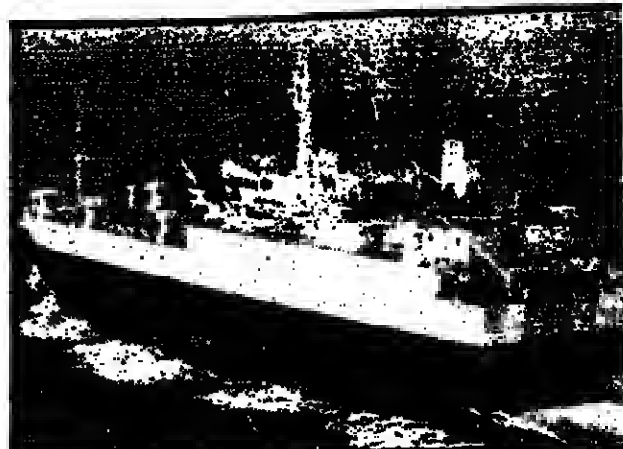
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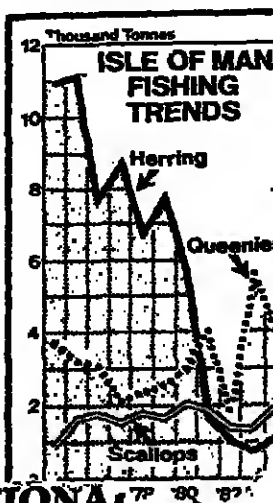
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of fine platinum.

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Gold is the traditional and universally recognised bullion medium. Platinum is the emerging bullion investment with exciting potential... its value underwritten by scarcity and by numerous rapidly expanding applications in high technology industries. If your investment plans include precious metal it makes sound investment sense to take both into your portfolio.

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The ANGEL and TENTH ANGEL contain respectively 1 troy oz and 1/10 troy oz of fine gold. They are teamed with the Manx NOBLE and TENTH NOBLE, minted respectively from 1 troy oz and 1/10 troy oz of pure platinum of 9995 fineness.

Isle of Man Royal bullion offers the most acceptable and the safest route to precious metal investment.

Coin illustrated larger than actual size to show detail.  
Diameter of Angel and Noble is 32.7mm. Diameter of Tenth Angel and Tenth Noble is 16.5mm.

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1/10th troy oz of fine platinum.

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Isle of Man 6

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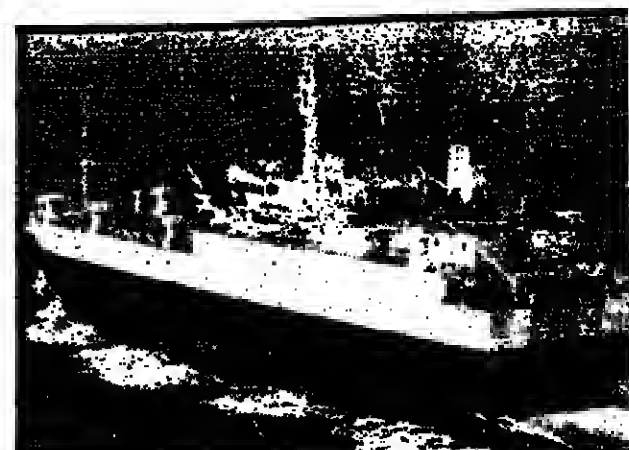
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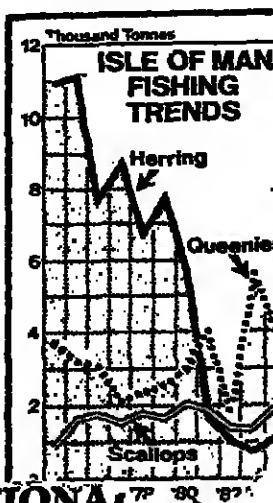
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The ANGEL and TENTH ANGEL contain respectively 1 troy oz and 1/10 troy oz of fine gold. They are teamed with the Manx NOBLE and TENTH NOBLE, minted respectively from 1 troy oz and 1/10 troy oz of pure platinum of 9995 fineness.

Isle of Man Royal bullion offers the most acceptable and the safest route to precious metal investment.

Precious metal bullion coins should be regarded as a long term investment. The price of gold and platinum can fall as well as rise.

For further details write to:

**The Tenth Angel**  
1/10th troy oz of fine gold.

**The Tenth Noble**  
1/10th troy oz of fine platinum.

**The Government Treasurer,**  
Bucks Road, Douglas, Isle of Man.